

DECENTRALIZATION IN INDONESIA

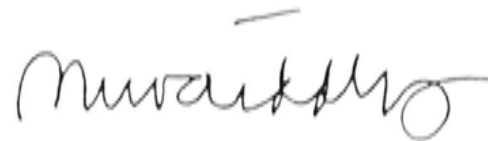
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Statement

I certify that this dissertation is my original work, preparing based on my own research conducting from 1997 to 2002. All sources of information used in this dissertation are clearly indicated. All parts of this dissertation have never been published.



Nuraida Mokhsen



Preface

Decentralization has been long advocated in Indonesia. But not until I joined the National Institute for Public Administration (Lembaga Administrasi Negara or LAN) in 1991 did I become interested in this issue. From 1992 to 1994 I coordinated a study on fiscal decentralization, conducted in cooperation between LAN, Department of Finance and the Harvard Institute for International Development (HIID). In addition, I also participated in decentralization projects initiated by the Department of Finance, the Department of Home Affairs, the Department of Health and the State Ministry for the Utilization of the State Apparatus. My disappointment with the way decentralization had been implemented encouraged me to learn more about decentralization. I hope this dissertation would have its contribution to the debate on the proper form of decentralization for Indonesia.

My gratitude goes to Dr. Kristiadi, the former chairman of LAN, for his strong support to my plan to attend a PhD program and assistance for obtaining scholarship from the AusAID. I also want to express my indebtedness to Drs Poltak Panggabean, the former secretary of LAN, for his administrative as well as financial supports during my field visit in Indonesia in 1997.

I am deeply grateful to Dr. Peter Lamour of NCDS, especially for his intensive assistance during the preparation of my PhD proposal. I also wish to thank Dr. Ron May of RSPAS for his invaluable comments on the first draft of my dissertation. My gratitude also goes to Professor Kerkvliet, Head of the Department of Political and Social Change, RSPAS, ANU, for his continued support and encouragement during my study at ANU. I also would like to express my special thanks to Mrs. Beverly Fraser of the Department of

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My largest debt, however, is to Dr. Harold Crouch, who had read the whole dissertation several times, for his stimulating comments and critics to my work. I also have to thank him for encouraging me to discuss the problem of decentralization not only from the point of view of public administration but also from the study of politics. This has broadened my knowledge about the politics of decentralization in Indonesia.

Lastly, I would like express my deep appreciation to my husband Oceany Gumelar for his willingness to leave his job in Jakarta and come to Canberra to help me take care of our only son Ibnu Kemal, who needed special attention. This dissertation would not be completed without his continued support.

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Abstract

Decentralization was first introduced in Indonesia by the Dutch colonial government in 1903. Since independence, the issue has always been on the agenda of the government. But the system remained heavily centralized until the collapse of Soeharto's regime. In 1999, President Habibie, who succeeded President Suharto, introduced a radical law on decentralization that aimed to reverse the centralization that had been a dominant characteristic of the New Order system. This study, however, does not intend to examine the new decentralization program in depth but focuses instead on the failure to implement significant decentralization under the New Order and the prospect for decentralization in the post New Order Era. This study attempts to explain why decentralization in the New Order Indonesia failed to devolve power in decision making to regional government.

Political chaos following the 1965 attempted coup forced the New Order government, which came to power in 1966, to promise autonomy as broadly as possible to the regions in order to restore internal security. But in 1973, the concept of "broadest autonomy" was replaced by "real and responsible autonomy". To implement this concept, Law No. 5 on the principles of governance at regional levels was issued in 1974.

Law No. 5 of 1974 established two tiers of autonomous regions: the province as the first level and the municipality and regency as the second level. The law emphasized decentralization of authority to the second level of government and the provision of local public services to the maximum extent possible by second-level governments. However, during 1979-1984, when the government experienced a boom in oil revenue, central government grants to provincial and local governments were increased dramatically as part of efforts to distribute development benefits more widely and more equitably. As a result,

most infrastructure projects and public services were planned, financed and implemented by the central government, while decentralization was almost forgotten.

When the government experienced budget constraints in the mid-1980, it was forced to reintroduce decentralization policy. A variety of programs were implemented, but they had very little impact on regional autonomy. Functions were decentralized to regional governments but authority for making decision over those functions remained at the center. This was because the program was actually designed to shift part of the central financial responsibility for providing public services to regional governments.

This study concludes that the Indonesia's failure to form more independent regional governments under the New Order administration was primarily due to the fact that Law No. 5 of 1974 itself did not intend to devolve more power and authority to regional levels. Most of its provisions were concerned with the establishment and operation of a highly centralized political structure at local level. This structure was intentionally built to ensure continued political stability and economic development. These two objectives were very important to the military leaders of the New Order government who experienced continued political instability and economic bankruptcy under the parliamentary democracy and guided democracy.

The socio-economic and political environment in the New Order Indonesia was also unsupportive to decentralization. The fiscal system was centralized, and this made the regions dependent heavily on financial transfers from the center. Party system was not competitive, and those who represented the government dominated local councils. Local politicians did not have much influence in local councils. The press was controlled. These all weakened regional demands for autonomy. As the pressure for decentralization was low, the issue did not get much attention from the policy makers and no real attempt was made to implement the Law.

The fall of the New Order regime opened another chapter in Indonesia's experience with decentralization. Mounting demands for democratization following the fall of Suharto's authoritarian regime forced the Habibie's administration to introduce Law No. 22 of 1999 on regional government that granted more power to local authorities. In addition, the government also issued Law No. 25 of 1999 on fiscal balance that allowed regional governments to retain a substantial share of revenues produced in their regions. But the implementation of the two Laws, starting from January 2001, has raised concern about increasing conflicts that might lead to the nation's disintegration. This concern causes the debate on the right form of decentralization for Indonesia to continue. But recent political development seems more supportive to decentralization. Decentralization seems to have better prospect to progress in the near future Indonesia.

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Glossary

ADO	Alokasi Devisa Otomatis (Automatic Exchange Allocation)
SPP ADO	Sumbangan Pemerintah Pengganti ADO (Grant in lieu of ADO)
BAKN	Badan Administrasi Kepegawaian Negara (the National Board for the Administration of the Civil Servants)
Bappenas	Badan Perencanaan Pembangunan Nasional or National Development Planning Board
BPH	Badan Pemerintah Harian (the Executive Council)
BPUPKI	Badan Penyelidik Usaha Persiapan Kemerdekaan Indonesia (Investigating Committee for Preparatory Work for Indonesian Independence)
Cabang Dinas	The regional office of provincial government at the district level
Daerah	Region
DAK	Dana Alokasi Khusus (Special allocation fund)
DAU	Dana Alokasi Umum (General allocation fund)
Dati I	Daerah Tingkat I (first level of regional government)
Dati II	Daerah Tingkat II (second level of regional government)
Depdagri	Departemen Dalam Negeri (Department of Home Affairs)
Depkes	Departemen Kesehatan (Department of Health)
Dep. PU	Departemen Pekerjaan Umum (Department of Public Works)
Desa	Village
Dinas Tingkat I	Service unit, established under a provincial government
Dinas Tingkat II	Service unit, established under a district government
Cabang Dinas	The field of Dinas Tingkat I.
DIK	Daftar isian kegiatan (document that specifies the detailed allocation for salaries, office maintenance, and other routine activities)
DIP	Daftar isian proyek (a document that specifies the detailed allocation of the government budget for a specific project).
DPD	Dewan Pemerintah Daerah (Regional Executive Council)
DPOD	Dewan Pertimbangan Otonomi Daerah (Advisory Council for Regional Autonomy)

DPR	Dewan Perwakilan Rakyat or the House of Representatives (parliament)
DPRD	Dewan Perwakilan Rakyat Daerah or Regional Parliament
DPR-GR	Dewan Perwakilan Rakyat Gotong Royong (Mutual Assistance House of Representatives)
Eselon	Level for managerial positions in the civil service (eselon I for secretary general, director general and deputy minister; eselon II for director; eselon III for head of sub-directorate and eselon IV for head of section)
GBHN	Garis Besar Haluan Negara (the Broad Guidelines of the State Policy)
Golkar	Golongan Karya (Functional Groups)
HP III	Health Project the Third
Inpres	Instruksi President (Presidential Instruction, which referred to central transfers to regional governments finance development program)
IUIDP	Integrated Urban Infrastructure Development Program
Kantor Men.PAN	Kantor Menteri Negara Pendayagunaan Aparatur Negara (The State Minister for the Utilization of the State Apparatus)
Kabupaten	Regency (District in rural area)
Kandep	Kantor Departemen (District Office of the central department)
Kanwil	Kantor Wilayah (provincial office of the central department)
Kecamatan	Subdistrict
Kelurahan	Urban community
KND	Komite Nasional Daerah (Regional National Committee)
KNIP	Komite Nasional Indonesia Pusat (Central National Indonesian Committee)
Kodim	Komando Distrik Militer (District Military Command)
Korem	(Komando Resort Militer (Resort Military Command)
Koramil	Komando Rayon Militer (Rayon Military Command)
Kotamadya	Municipality (district in urban area)
Kowilhan	Komando Wilayah Pertahanan Regional (Regional Defense Command)
LAN	National Institute of Public Administration
Lemhannas	Lembaga Pertahanan Nasional (National Resilience Institute)
Medebewind	the responsibility of Dati I and Dati II to carry out activities on behalf of the center.
Mendagri	Menteri Dalam Negeri (Minister of Home

Menkeu	Affairs)
Men.PAN	Menteri Keuangan (Minister of Finance)
	Menteri Negara Padayagunaan Aparatur Negara (the State Minister for the Utilization of the State Apparatus)
MPR	Majelis Permusyawaratan Rakyat or People's Consultative Assembly
MPRS	Majelis Permusyawaratan Rakyat Sementara (Provisional People's Consultative Assembly)
NEI	Netherlands East Indies
Pamong pradja,	The territorial administrative corps of the Ministry of Interior.
Pangreh pradja	Old gentry who were given special privileges by the Dutch colonial ruler
PDI-P	Partai Demokrasi Indonesia-Perjuangan (the Indonesian Democratic Party- Struggle)
PJM	Program Jangka Menengah (multi or five-year program)
PKI	Partai Komunis Indonesia (Indonesian communist party)
PNI	Partai Nasional Indonesia (Indonesian National Party)
PNS	Pegawai negeri sipil (civil servants)
PPP	Partai Persatuan Pembangunan (United Development Party),
PPKI	Panitia Persiapan Kemerdekaan Indonesia (Preparatory Committee for Indonesian Independence)
PRRI	Pemerintah Revolusioner Republik Indonesia (Revolutionary Government of the Republic of Indonesia)
PUOD	Pemerintahan Umum dan Otonomi Daerah (Regional Autonomy)
Puskesmas	Pusat Kesehatan Masyarakat (community health center)
Repelita	Rencana Pembangunan Lima Tahun (Five year development program)
RIS	Republik Indonesia Serikat (the United States of Indonesia or RUSI)
RUSI	Republic of the United States of Indonesia
SDO	Subsidi Daerah Otonom (Subsidy for autonomous region)
Sekretariat Negara	The State Secretariat
Technical or Sectoral Department	Government's Department responsible for a specific sector such as Health, Agriculture, Public Works. The Department of Home Affairs and the Department of Finance are not considered as sectoral departments.



Chapter I

Introduction

In 1999, following the fall of President Soeharto's New Order regime in 1998, the new Habibie's government introduced a radical law on decentralization that aimed to reverse the centralization that had been a dominant characteristic of the New Order system. This study, however, does not intend to examine the new decentralization program in depth but focuses instead on the failure to implement significant decentralization under the New Order. Despite the fact that a variety of programs were introduced to strengthen the capacity of regional governments to perform more functions, power in decision-making remained heavily centralized until the collapse of Soeharto's regime. This study attempts to explain why decentralization introduced in the New Order Indonesia failed to shift power in public decision-making from the national to sub-national levels of government.

The study focuses on Indonesia's experience in implementing decentralization during the period of 1966 to 1998. Under the New Order government, especially during the 1990s, attempts to devolve power to regional levels had been intensified. Their impact was however very limited. This study is intended to identify factors that hampered the decentralization of power to local levels and assess the prospects of decentralization in the post New Order era.

Decentralization in Indonesia

The issue of decentralization has been the subject of internal debate since the early years of Indonesian independence. The debate, especially on the proper degree of power to be decentralized to sub-national levels of government, was a result of the paradox contained in two articles of the 1945 Constitution. While the first Article stated that Indonesia was a unitary state, Article 18 stipulated that its territory be divided into several autonomous and non-autonomous (administrative) units. The Constitution's elucidation stated that in every autonomous unit, a regional consultative body would be established. This provision implied the need to grant to the autonomous regions the authority to manage certain functions with minimal intervention from the central government. The 1945 Constitution, however, did not specify which functions those regions could autonomously exercise. Those functions were to be decentralized by the center and this matter was to be regulated by laws (see Walker III 1967: 124).

Various attempts to implement Article 18 of the 1945 Constitution have been initiated since the proclamation of Indonesian independence in 1945. In fact, the first law introduced following the proclamation of Indonesian Independence was concerned with the establishment of regional councils. But Law No. 1 of 1945 never had a chance of being implemented because of the revolution, especially in Java between 1946 and 1949 (Walker III, 1967:134-138).

During the revolution, the Government of Indonesia did not actually have control over most of Indonesia.¹ Despite this fact, Law No. 22 of 1948 on regional administration was later issued to replace Law No. 1 of 1945. This law outlined the organization of

¹ Following the Japanese surrender, the Dutch returned to Indonesia and gradually reoccupied part of the archipelago. In 1948, the *de facto* territory of the republic of Indonesia covered most of Java, part of Sumatera and Kalimantan.

regional governments, functions to be performed by regional authorities, and methods of selecting regional heads, in the Western part of Indonesia. Following the formal transfer of sovereignty of Indonesia by the Dutch in December 1949, a similar law, Law No. 44 of 1950, was introduced for the East Indonesia State, which had been under Dutch control during the revolution. These laws established three tiers of self-governing regions and required the appointment of regional heads by the central government. Implementation of these two laws, however, did little to counteract centralized administration of the regions. Both the content and the implementation of those laws, especially with regard to the appointment of the regional heads by the central government, created even more regional dissatisfaction, contributing to the outbreak of regional rebellions in the Outer Islands against the central government in 1956 and 1957 (Maryanov, 1957: 41-43; Walker III, 1967: 167-168; Kahin, 1994:206).

In response to increasing pressure for greater regional autonomy, the government issued Law No. 1 of 1957 to replace Law No. 22 of 1948 and Law No. 44 of 1950. This law was prepared based on the 1950 Provisional Constitution, which guaranteed broader scope of regional autonomy.² In Law No. 1 of 1957, it was stated that matters within the purview of the central government included foreign affairs, defence, and currency (Maryanov 1958:56-57). This implied that residual responsibilities would be left to the regions. This law, according to Feith (1962:552) also greatly increased the power of elected legislative councils in the provinces, regencies, and municipalities, and provided for the gradual elimination of *pamongpradja* from territorial jurisdiction.³ Under this law, regional heads

² From November 1945 to July 1959, the 1945 Constitution was not in effect. The 1950 Provisional Constitution was enacted to replace the Constitution of the Republic of the United States of Indonesia (RUSI), which was in effect from December 1949 to August 1950. In 1959, Indonesia returned to the 1945 Constitution.

³ *Pamongpradja* is the territorial staff of the Ministry of Home Affairs.

were to be elected and discharged by regional councils. Unfortunately, these provisions were never implemented. The enactment of Law No. 1 of 1957 coincided with a period of heightened tension between Jakarta and the Outer Islands, culminating in open rebellion a year later. In July 1959, Indonesia returned to the Constitution of 1945 by a presidential decree. This decision marked the beginning of 'Guided Democracy'. In September a presidential edict suspended those provisions of Law No. 1 of 1957 relating to the election and powers of the executive council (DPD) and to the election of regional heads. The edict provided for the return to appointed regional heads and created a new type of executive council, responsible to the regional heads. The edict, according to Legge, represented "not only a modification of detail, but a reversal of the central intention of Law No. 1" (1961:60-61). Central control over the regions became stronger under guided democracy (Mac Andrew, 1986:10-11).

The political chaos following the 1965 coup attempt opened a window of opportunity for the regions to revive their demands for greater regional autonomy. When the New Order government came to power in 1966, it desperately needed loyal regional support to restore internal security. This situation finally led to the enactment of MPRS decision no. XXI/MPRS/1966 that demanded that autonomy be given as broadly as possible to the regions. But "broadest autonomy" was soon replaced by "real and responsible autonomy" through MPR decision No. IV/MPR/1973. To implement this concept, law on the principles of governance at regional levels was issued in 1974.

Law No. 5 of 1974 established two tiers of autonomous regions: the province as the first level and the municipality and regency as the second level. The law emphasised devolution of power to the second level of government and the provision of local public services to the maximum extent possible by second-level governments. However, during

1979-1984, when the government experienced a boom in oil revenue, central government grants to provincial and local governments were increased dramatically as part of efforts to distribute development benefits more widely and more equitably. As a result, most infrastructure projects and public services were planned, financed and implemented by the central government, while decentralization was almost forgotten.

With the sharp decline in oil prices in the mid-1980s affecting central government revenue, concern about the capacity of the central government to continue financing expanded public services arose. Economic development during the 1980s led to a steep increase in demand for public services in Indonesia's cities and towns, exacerbating an already serious backlog in service provision (Bastin and Smoke 1992:1). This situation forced the central government to implement its decentralization policy more seriously. Beginning in 1984, a variety of programs were designed and implemented in an effort to strengthen the capacity of local governments to assume more responsibility for planning, implementing and financing public services.

Despite the fact that a great amount of resources had been devoted for many years to a variety of programs designed to strengthen the capacity of local governments, several studies showed those programs had little impact on the improvement of local autonomy.⁴ Functions were decentralized to regional governments but authority for making decision over those functions remained at the centre. In fact, under the New Order government, regions were treated more like administrative units, depending on the central government for their authorities, policies and resources.

⁴ See, among others, studies made by the National Institute of Public Administration (LAN) with the assistance of Harvard Institute of International Development (HIID), Jakarta, from 1992 to 1994, and by GTZ (Deutsche Gesellschaft Fuer Technische Zusammenarbeit) in 1996.

The worsening economy, coupled with the rise of an opposition movement, which led to the sudden resignation of President Suharto on 21 May 1998, opened another chapter for implementing regional autonomy in Indonesia. The fear that Indonesia could fall apart encouraged the MPR, which held a special session in October 1998, to issue its decision No. XV/MPR/1998 on the implementation of the fullest regional autonomy, fairer revenue sharing and fiscal balance. To implement this decision, President Habibie enacted Law No. 22 of 1999 on regional autonomy and Law No. 25 of 1999 on fiscal balance in May 1999.

In January 2001, Indonesia commenced the implementation of the regional autonomy policy. Only six weeks later, the Minister of Home Affairs and Regional Autonomy Surjadi Sudirdja announced that the government intended to revise the two laws. The government's move to revise the laws met strong opposition from the regions. But Megawati Soekarnoputri, who was elected President in July 2001, insisted on amending the Laws, especially Law No. 22 of 1999, for she believed that the law went against the principle of Indonesia as a unitary state, as laid down in the 1945 Constitution.⁵

Fights between the central and regional administrations to control political and natural resources may continue in the near future. The implementation of Law No. 22 of 1999, nevertheless, has strengthened the position of the regions *vis a vis* the center. This has changed the nature of relationship between the center and the regions.

A Note on Indonesia's Political Structure

Indonesia's system of government is based on the 1945 Constitution proclaimed at the beginning of the anti-colonial revolution in 1945 and re-introduced by President Sukarno in 1959. The 1945 Constitution was amended drastically between 1999 and 2002

⁵ See the discussion in chapter 8.

after the fall of President Soeharto but the original version provided the legal foundation for the political system throughout the New Order era. According to the unamended 1945 Constitution, Indonesia was a unitary republic in which ultimate authority was in the hands of the People's Consultative Assembly (MPR, *Majelis Permusyawaratan Rakyat*), which convened at least once every five years to elect the president and vice president and to determine the Broad Guidelines for State Policy (GBHN, *Garis-Garis Besar Haluan Negara*). During the New Order period its membership rose to 1000 of whom half were members of the House of Representatives (*Dewan Perwakilan Rakyat* or DPR).

The DPR can be considered as the Indonesia's parliament. Until 1997, 400 of the DPR's members were elected in general elections held every five years while the remaining 100 were appointed members of the armed forces. In 1997 the number of military representatives was reduced to 75.

Regional parliaments (DPRD, *Dewan Perwakilan Rakyat Daerah*) were also established at the provincial and district (*kabupaten/kotamadya*) level and included both elected members and appointed representatives of the military. In contrast to the national level where the MPR and not the DPR elected the president, at the regional level the DPRD formally elected the head of the regional government – although, as we will see later, in reality regional heads were in effect appointed.

Under the New Order, the number of contestants in general elections was limited to three – the government-backed Golkar and two political parties, one representing nationalist groups (*Partai Demokrasi Indonesia* or PDI) and the other representing Muslim interests (the *Partai Persatuan Pembangunan* or PPP). Elections were held in such a way that the Golkar always won overwhelming victories.

The presidency was the pivotal institution under the unamended 1945 Constitution. But President Soeharto's power was primarily based on his control of the armed forces. Military officers were always prominent in the cabinet and the bureaucracy. They were also often elected as governors at the first-level regions (provinces) and as district heads (*bupati* in rural districts and *walikota* in urban districts) in the second-level regions. In 1980 the total number of military personnel seconded to government positions had reached 8156 although this decreased to around 6000 by 1995 (Lowry, 1996:188).

During Suharto's administration, the Indonesian bureaucracy played a very important role in policy process, and therefore, in analysing the causes for the slow progress of the decentralization in Indonesia under the New Order, it is also important to emphasize the behaviour of the bureaucracy. At the central level, the Department of Home Affairs (*Departemen Dalam Negeri* or Depdagri), the Department of Finance (*Departemen Keuangan* or Depkeu), the State Ministry of the Utilization of the State Apparatus (*Kantor Menteri Negara Pendayagunaan Aparatur Negara* or Menpan), the National Development Planning Board (*Badan Perencanaan dan Pembangunan Nasional* or Bappenas), the technical/sectoral departments such as Agriculture, Education, Health, Public Works, all took part in the process of policy making and implementation. At provincial and local levels, governors, regional offices of the central departments (Kanwil), Provincial Development Planning Boards (Bappeda Tk. I) and provincial sectoral offices (Dinas Tk. I), *bupati* or *walikota*, District Development Planning Offices (BappedaTk. II) and local sectoral offices (Dinas Tk. II) may also have some control over policy implementation. During the New Order the outcome of decentralization programs was especially shaped by the actions of these actors or agencies, which had interests in the preservation of a centralized system.

The Bureaucracy and Centralization

Most studies of the nature of the modern Indonesian polity and the relationship between state and society in the New Order Indonesia emphasise the important role of the bureaucratic elite in the introduction and implementation of public policy (Jackson, 1978; Crouch, 1979 and 1986; King, 1982; Anderson, 1983; Emmerson, 1983; MacIntyre, 1990). Jackson, for example, using Rigg's bureaucratic polity model, described how participation in policy formation under the New Order was confined almost exclusively to senior members of the state apparatus, military as well as civilian. The only opportunity to participate in national policy formation by interests outside the state elite occurred during policy implementation, and then, only minor local-level adjustments. Jackson also considered political relations among members of the state elite as being characterised by competing cliques held together by a network of personalised patron-client links. Influence could only be exercised through these patron-client links (Jackson, 1978: 5-18).

Crouch compared Suharto's government to Weberian patrimonial polities in which 'the government was able to rule in the interests of the elite without taking much account of the interests of the masses because the latter were poor, socially backward, politically passive and kept in check by the regime's military forces. Politics thus took the form of a struggle within the elite itself, among rival factions and cliques that were concerned principally with gaining influence with the ruler who determined the distribution of rewards and offices (1979:572). King described the New Order government as a bureaucratic-authoritarian regime where effective political power was very largely concentrated within the state structure and societal groups were excluded from the shaping of public policy (1982).

Despite differences in approach used in their analysis, all these scholars – who were writing in the 1970s or early 1980s - concluded that the Indonesian bureaucratic elite was largely unconstrained by societal interests in the determination of policy. Studies done in the late 1980s and early 1990s, however, indicate that policy processes were not only the domains of central bureaucrats. The involvement of extra-state actors was quite significant. Liddle, for example, from his study on rice and sugar policies in Indonesia concludes,

that it is true that central government officials are the key agricultural policy makers today and that bureaucratic politics, that is conflict among state agencies with different agenda and ambitions, has a great deal to do with decision outcomes. But the central state apparatus does not monopolize the policy process. Other significant - sometimes decisive - actors include local officials, organized and unorganized producers, intermediaries, and consumers, members of parliament, and the press and intellectual community (Liddle, 1987: 129)

Another study by MacIntyre on textile, pharmaceutical and insurance industries in Indonesia indicated that by the 1980s not only was the state bureaucratic apparatus involved in conflict and negotiation, but also parliamentarians and other extra-state actors. The role of industry groups was most salient. They were quite able to influence policy outcomes. The press proved to be important as an articulator of interests from both inside and outside the state (MacIntyre, 1990: 244-245).

Although more opportunities were available for actors from outside government and they were more willing to take part in the policy processes in the 1990s, their involvement, however, was limited to only certain policy areas. During the New Order period, the issue of decentralization did not seem to be attractive to people outside the government bureaucracy for its benefits could not be visibly seen by the public. As Grindle and Thomas note, policies, which are not readily visible to the public, will only be fought over in the bureaucratic arena. (Grindle and Thomas, 1991:187). A study by Richard C. Crook and James Manor on the implementation of decentralization policy in four countries in Asia and

Africa also shows that pressure from civil society for decentralization played little part in those countries (Crook and Manor, 1995: 312). In Indonesia, however, public support for decentralization seemed strong after Soeharto's fall.

The end of Suharto's rule gave a rise to widespread demand for democratization, including demand for participation in policy making. The excessively dominant role of executive in the past led to increased demands for restriction of the power of the executive. This provided actors from outside the bureaucracy with more opportunity to affect the policy process. Despite this, the position of bureaucrats remained important in the policymaking. Their administrative capability, technical expertise, and control over information enabled them to influence the direction of public policy while the political controls of the regime enabled it to suppress popular demands.

Approach and Methodology

In an attempt to answer the question of why decentralization in the New Order Indonesia failed to devolve power in public decision-making from the national to sub-national levels of government, this study analyses the process by which Law No. 5 of 1974 was drafted and translated into action. Its focus is on factors that shaped the decisions on what should be the content of Law No. 5 of 1974 and on how the law was implemented.

The content of Law No. 5 of 1974 was very important for it affected how the decentralization policy was to be pursued. It determined what kind of program would be introduced, where and when the program would be implemented, who would be the beneficiaries and who would bear the cost, where and when the program was to be implemented and who would be in charge of executing the program. In addition, the way in which the policy goals were stated was also important. As Grindle (1980: 8-10) notes,

whether the goals are stated clearly or ambiguously and whether political and administrative officials are in agreement about those goals have a major impact on the manner in which the policy is to be implemented. Policy content is the result of conflict and bargaining among actors involved in the formulation of the policy.

As previously discussed, during the New Order period the state apparatus played a decisive role in defining the content of particular policies. In making decisions, these officials were relatively unconstrained by the interests of certain classes or organized groups in society. In deciding what problems they needed to address and what solutions they needed to introduce, those officials could be expected to be influenced by their individual characteristics, such as their professional training, experiences, organizational positions, interests and goals. But they were not fully autonomous. Their choices were also influenced by the environment during which the decision was made. As Grindle and Thomas (1993: 37) argue, the contexts within which they operate set limits on what solutions are available to them.

This study uses qualitative analysis. Much of information used in this study is obtained from in-depth interviews with relevant government officials at central, provincial and local levels, and experts who had been directly or indirectly involved in the preparation and/or implementation of the projects. In addition, some eminent academics from prominent universities in Indonesia were interviewed to elicit their opinions.

In addition to primary data, secondary data was also collected from many sources, including Indonesian Government publications from the Central Bureau of Statistics, the National Planning Board, the Office of State Minister for the Utilization of the State Apparatus, National Institute of Public Administration, National Archive, Department of Finance, Department of Home Affairs and other related sectoral ministries, Other sources

included World Bank and other international publications on Indonesia, and previous relevant studies. These secondary sources provide information about government policies, legislation and programs introduced for decentralization and the progress of implementation.

A six-month field trip to Indonesia was conducted from March to August 1997. During the trip, the following provinces were visited: West Java, East Java and East Kalimantan. The choice of provinces were based on the fact that those regions were involved in the implementation of the three projects selected for the case studies: the Pilot Project of Decentralization initiated by the State Ministry for the Utilization of the State Apparatus (Kantor Menteri Negara PAN); the Integrated Urban Infrastructure Development Project (IUIDP) of the Department of Public Works; and the Health Project III of the Department of Health. An additional visit to Indonesia was made in 1999.

In this study, analysis is largely limited to the preparation and implementation of Law No. 5 of 1974 and other legislation related to this law. The experience of implementing similar policies during the 1950s is also discussed briefly to assist understanding the background of decentralization in Indonesia. A chapter focus on post-New Order reform is also made to show how the issue of decentralization was addressed immediately after the fall of the New Order government.

Structure of the Study

This study is divided into the following chapters. Chapter I explains the background and purpose of the study. It also discusses the approach and methodology used in preparing the study.

Chapter II discusses the politics of decentralization in developing nations. It begins with a brief discussion of related concepts and theories on decentralization. The emphasis is on factors that motivate the adoption of the policy, the outcome and conditions that affect the outcome. This chapter is expected to provide a broader perspective in analysing the process of decentralization in Indonesia.

Chapter III provides the historical context of decentralization in Indonesia. It explains why the founders of Indonesia chose to adopt the idea of decentralization in the unitary state. It also discusses how this idea was implemented during the 1950s and 1960s. The discussion of the previous experience provides background to the problems of central-regional relations that existed during the New Order administration.

Chapter IV focuses on the formation of decentralization policy under the New Order government. This chapter analyses how Law No.5 of 1974 was prepared and obtained approval from the parliament. It also discusses factors that influenced the content of the law.

Chapter V discusses the way in which Law No. 5 of 1974 was translated into action and its relation with the formation of a strong state in New Order Indonesia. This chapter tries to answer why the Law failed to promote greater regional autonomy.

Chapter VI reviews the implementation of the pilot project on decentralization. This pilot project was introduced by the State Minister for the Utilization of the State Apparatus (Men. PAN) and the Minister of Home Affairs (Mendagri) in 1994. This project emphasized the transfer of responsibilities, personnel, funds and facilities to the second level of government. Twenty-six districts were selected as the locations of the pilot project.

Chapter VII discusses the sectoral experience in decentralizing public service provision. Two projects were chosen to be studied. The first one is the Integrated

Infrastructure Development Project (IUIDP), which was launched by the Department of Public Works in 1986. This project was aimed at improving local capacity in the provision of public services such as water supply, waste management, and road maintenance. The second project is the Health Project III (HP III), which was introduced in 1987 by the Department of Health for the purpose of strengthening local capacity to provide basic health care. These two projects represent the point of view of sectoral ministries on how decentralization policy should be pursued.

Chapter VIII analyses Indonesia's experience with decentralization immediately after the fall of the New Order regime. This chapter discussed why a new regional autonomy law was adopted and what made the concept different from the one introduced previously. It also discusses the problems associated with the implementation of this new Law.

Chapter IX draws some conclusions about factors, which prevented the transfer of power to regional government from happening in New Order Indonesia. It also assesses the prospect of decentralization in the near future.

Chapter II

Political Decentralization in Developing Countries

Decentralization has been an off-and-on goal in developing countries. Beginning in the 1950s in Asia and in the 1960s in Africa, various attempts were made to establish decentralized systems of government. It was argued this system would bring the government closer to the people and tap the creativity and resources of local communities by giving them opportunities to participate in development. But by the early 1970s, most of these initiatives had been vitiated by distrust and interference from above, and by political rivalries and shortages of resources and expertise in elected councils and local communities. As a result, governments tended to swing back to centralization. But, in the early 1980s, as centralized regimes failed to deliver desired national unity and economic progress, decentralization was again on the agenda. In most cases, the focus was on delegation of administrative authorities. Some countries tried experimenting with limited forms of political decentralization (Mawhood, 1983:8; May, 1997:1; Crook and Manor, 1998:2). The results were, however, not promising.

Since the latter part of the 1980s, there has been growing interest in devolution. A World Bank study noted, "of 75 developing and transitional countries with populations greater than 5 million, all but twelve have started decentralizing political power to local units of government" (Dillinger, 1994:8). Despite rhetoric that claimed the policies were aimed at promoting local self-governance, recent studies suggest that government in most developing countries remains centralized. Even in countries where local governments were

granted greater autonomy, the policies neither promoted responsiveness nor strengthened accountability.

This chapter discusses motives behind the introduction of decentralization, particularly political decentralization, and forces that hampered the formation of decentralized system of governments in developing countries. This discussion is of particular importance for analysing the problems in implementation the policy in Indonesia.

The Concept of Decentralization

Decentralization covers a broad range of concepts. Litvack and Seddon (1999:1) classify those concepts into political, administrative, political, fiscal and economic or market decentralization. Each concept is briefly discussed in this chapter. But the study focuses on political decentralization. It is concerned with the territorial distribution of power (Mawhood, 1983:3; Smith, 1985: 1; Wolfers, 1985: 3).

Political decentralization generally refers to the devolution of power in public decision-making from national to sub-national governments. Such devolution requires the creation of political institutions, which have the right to make policies for the areas over which they have jurisdiction. These sub-national authorities, therefore, acquire a measure of autonomy (Smith, 1995: 9).

Political decentralization is sometimes referred to as “democratic decentralization” (Smith, 1995: 9). It aims to give citizens or their representatives more influence in formulating and implementing policies. Advocates of political decentralization believe that decisions made with greater participation will be better informed and more relevant to diverse interests in society than those made only by national political authorities. Political decentralization is often associated with pluralistic politics and representative government.

It is believed that the selection of representatives from local electoral jurisdictions allows citizens to better know their political representatives and allows elected officials to better know the needs and desires of their constituents (Litvack and Seddon, 1999: 7).

Administrative decentralization is the transfer of responsibility for planning, management, and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations area-wide, regional or functional authorities, or nongovernmental private or voluntary organizations (Rondinelli and Nellis 1986:5; Litvack and Seddon, 1999:1). It both refers to functional and areal decentralization. The former involves the transfer of authority to perform specific tasks and activities from the central ministries and agencies to their field offices, while the latter refers to the transfer responsibility for public functions to organizations within a specified political or geographical boundary, such as a province, district, municipality or river basin (Rondinelli, 1983:137).

There are three types of administrative decentralization: deconcentration, delegation and devolution. Deconcentration is the redistribution of decision-making authority and financial and management responsibilities among different levels of the central government. It is often considered the weakest form of decentralization and is used most frequently in unitary states. Delegation is the transfer of responsibilities and power from the central government to semi-autonomous organizations (like a public corporation or a housing authority) not wholly controlled by the central government but ultimately accountable to it. It is a more extensive form of decentralization. Devolution is the transfer of authority for decision-making, finance, and management of services to quasi-autonomous units of local government, such as municipalities that elect their own mayor, raise their own revenues,

and have the authority to make investment decision. It is the type of administrative decentralization that underlies most political decentralization. (Rondinelli, 1983: 137-139; Prud'homme, 1994:2, Litvack and Seddon, 1999: 2).

Fiscal decentralization is the transfer of authority to raise revenue and make expenditure decisions. Fiscal decentralization is intended to allow local governments and private organizations to carry out decentralized functions effectively. Financial responsibility is a core component of decentralization. If local governments and private organizations are to carry out decentralized functions effectively, they must have adequate revenues-raised locally or transferred from the government as well as the authority to make expenditure decisions. Fiscal decentralization can take many forms, including: expansion of local revenues through property or sales taxes or indirect charges, self-financing or cost recovery through user charges, and intergovernmental transfers of general revenues from taxes collected by the central government to local governments for general or specific uses

Privatization is the transfer of responsibility for functions from the public to the private sector. Privatization allows functions that had been primarily or exclusively the responsibility of government to be carried out by businesses, community groups, cooperatives, private voluntary associations, and other nongovernmental organizations. Privatization and deregulation are usually accompanied by economic liberalization and market development policies. Privatization-Privatization can range in scope from the provision of goods and services based entirely on the free operation of the market to public-private partnerships in which government and the private sector cooperate to provide services or infrastructure.

Decentralization is related to the existence of multi-level government. In most countries, the government is stratified into more than one level, where each stratum is

responsible for a particular set of public sector functions. In a federal system, functions are allocated to the federal and state governments by the constitution. Each level has full responsibility over functions falling under its jurisdiction. Thus, decisions made by the states cannot be simply overridden by the federal government. Neither can the federal government abolish the states. In a federation, various kinds of decentralization may also take place. In a unitary system, on the other hand, responsibility over some functions is delegated from the central/national government to sub-national levels. Decisions made by sub-national government can be overruled by the central government. Moreover, regional and local authorities can be suspended. This is because the central government is the sovereign authority and other forms of government are subordinate to the central government (Boadway and Wildasin, 1984:497; Wilson, 1984:11; Smith, 1985:9; King, 1993:156).¹

The distinction between federal and unitary states, according to Smith (1985:14), is much less clear than it is sometimes believed to be. This is because it is not unusual for a federal constitution to contradict the principle of federalism. In Canada, for example, the constitution empowers the central government in certain specific and limited fields to modify provincial law. In many countries, the imposition of national standards may allow the federal government to have some control over programs implemented by states and local authorities. Federal grant-aided programs in the USA, for instance, require some policies to be implemented under close supervision of the federal government. Conversely, it is also possible for a unitary state to devolve substantial powers to provinces so that a quasi-federal arrangement exists. In the case of the Philippines, its 1991 local government

¹ In a federal system, each of the constituent parts of a federation may be regarded as unitary states each with its internal system of local government (Smith, 1985:2).

act assigns a wide range of functions and significant power to local governments. Consequently, a unitary state may not be necessarily more centralized than a federation.

Several arguments have been made for decentralization. Economists justify decentralization on the grounds of allocative efficiency. Their rationale is that people's preferences differ geographically and therefore decisions about public expenditure made by a level of government that is closer to the beneficiaries will be more likely to reflect demand for local services than decisions made by a remote central government (Oates, 1972:35; Boadway and Wildasin, 1984:498; King, 1993:157; Litvack and Seddon, 1999:6). Decentralization is also believed to improve government responsiveness. As Barooah (1993: 133) argues, any government needs to act in a manner consistent with what its citizens' desire. Failure to do so over a sufficient period of time, will, in one way or another, weaken the government's authority. In democratic countries, people express their desires through their votes. Devolving resource allocation decisions to locally elected officials, therefore, would encourage local governments to better satisfy the wishes of their citizens (Tiebout in Burki, 1999:3). Another potential benefit of decentralization is that people are more willing to pay for services that respond to their priorities, especially if they have been involved in the decision-making process for the delivery of these services (Litvack and Seddon, 1999:6).

Politically, decentralization is said to strengthen accountability, enhance participation and promote political stability. The creation of sub-divisions of the state, which are autonomous and governed by institutions that are founded in the area, can strengthen accountability. The existence of these self-governing units will also encourage more participation in decision-making. In this sense, it supports democratization. More participation means more political equality and stability because decentralization provides

an institutional mechanism for bringing groups with different interests into a formal bargaining process. This may ease frustrations, which if left unattended, could jeopardize stability (Benaissa, 1995:1; Litvack and Seddon, 1999:2)

From an administrative point of view, decentralization is necessary because the day-to-day management of public functions requires members of the public to have access to state agencies and the state agencies to reach individuals, families, and private associations. "Administration has to be geographically dispersed for the purpose of revenue collections, the maintenance of law and order, land registration, the provision of other cash benefits to people in need, and a host of other activities that simply cannot be conducted from the nation's capital" (Paddison in Smith, 1985:47). Decentralized administration is believed to promote efficiency by reducing overload and congestion in the channels of administration and communication (Rondinelli, 1984: 29).

Decentralization is not without its critics. Economically, it may not always be efficient, especially for standardized, routine, network-based services (Litvack and Seddon, 1999: 5). It may increase the costs of production of local services. "It may create expensive layers of government while reducing the benefits of economies of scale" (Scott, 1997:5). The proliferation of administrative arrangements at the local level can bring about deterioration in the quality of administration in a context where a larger number of officials are employed with less education, narrower outlooks and less experience (Mukerji, in Smith, 1985:7; (Burki, Perry and Dillinger, 1999:3). Decentralization can sometimes make coordination of national policies more complex and may allow functions to be captured by local elites (Litvack and Seddon, 1999: 7). It is also vulnerable to local patronage and corruption and, especially where the capacity and experience of local politicians and

officials is weak, it gives no guarantee of superior administrative performance (May, 1997:3).

It is also argued that decentralization does not necessarily promote democracy. Local government may be highly decentralized but power is transferred to a local elite and this may help augment the dominance of those who, because of wealth or status, are already powerful at the local level (Smith, 1985:20-33; Slater, 1980: 514-20). Another criticism doubts the efficacy of the electoral process. As Prud'Homme argues,

Preferences are complex and manifold. They relate to the importance of local public sector output (that is the total amount of local taxes paid) and to the structure of this output to the set of regulations that will be locally imposed, to the supply efficiency that is expected, to the distributional implications of the tax-expenditure package that will be decided. How could all that be expressed in a single vote? Local elections, when they exist, are usually decided on the basis of personal loyalties or political party loyalties... Moreover, the platforms on which local elections are fought, when they exist, are often vague and/or unrealistic. The menus offered for choice to the electorate are unlikely to be a good vehicle for expression of the electorate's preferences (Prud'Homme, 1994:7).

It may, therefore, reinforce narrow, sectional interest. Local decision-making, in these circumstances, will neither strengthen the accountability nor improve the responsiveness of local government to the desires of the people if a proper voting mechanism is not in place (Hunter, 1977:20).

Theoretically, decentralization may also widen regional disparities in the provision of public services. As Burki, Perry and Dillinger note,

Disparities, per se, are not undesirable. As with private goods, effective demand for local public services is likely to vary with income. But disparities matter when they have distributional implications. Thus, disparities in spending on primary education and primary health may be cause for concern (Burki, Perry, and Dillinger, 1999:4).

Increasing inequality between richer and poorer regions can also bring damaging consequences for unity (Smith, 1985:5).

Decentralisation is believed to be more likely to produce a better result if certain conditions are met. Dillinger (1995: 8-18), for example, argues that decentralisation of responsibility for public services provision will only be effective under the following conditions. Firstly, functional responsibilities are clearly assigned among different levels of government because a clear division of responsibilities between different levels of government is critical for ensuring accountability. If responsibilities are diffused, it is difficult to identify who is responsible for which decision. Secondly, revenue sources must match functional responsibilities. He argues that providing local authorities with revenues that match their expenditures is fundamental to making a clear division of responsibilities workable. Thirdly, a system of accountability that balances central regulation and local political participation is instituted. Even if local governments are assigned clearly defined functions and have the means to finance them, local political leadership will not necessarily respond to the interest of their constituents unless an effective system of accountability is in place.

Similarly, Ayee (1995:48-49) emphasizes the need to have revenues match responsibilities. For this purpose, he suggests that functions assigned to sub-national levels should be determined based on local financial capacities. In addition, he said, the availability of manpower should also be taken into account. This implies that the extent of decentralization should be in accordance with the availability of finance and manpower. Ayee particularly emphasizes the importance of granting local authorities genuine autonomy to manage their affairs and resources.

Another scholar, Manor (1995: 87), believes that "if higher authorities want to see decentralized institutions achieve things, they must see they have adequate resources and they must seek to ensure that elected councillors possess the power to make bureaucrats

accountable to them and that councillors can be made accountable to citizens". Like Ayee, Manor also argues for adequate power to be given to local authorities. He suggests that central politicians and bureaucrats not control local bureaucrats, but strengthen the capabilities of local councillors to deal with local bureaucrats.

Crook and Manor (1997:302-303) also emphasize the importance of an effective accountability mechanism. They argue that the result of decentralization not only depends on the appropriateness of the program, but also on a supportive socio-economic and political environment, especially for ensuring accountability. They indicate some essential prerequisites for an accountability mechanism to work effectively. Firstly, the system tends to work where there is already a competitive party system, which can generate pressure in the council chamber from a group of people who want to expose any faults of the administration. Secondly, it works where there is a free press. Thirdly, it works when there are elected politicians not only at the central but also at the local level. Fourthly, it works when there is a professional civil service so that more constructive relations can be developed between the officials and elected politicians. Crook and Manor's prerequisites seem to suggest that decentralization will only work well under democratic governments.

The Politics of Decentralisation in Developing Countries

As previously discussed, attempts to introduce a decentralized system of government have been off and on in developing countries. During the 1950s and 1960s, following their independence, most developing nations attempted to introduce decentralized government. Nationalists usually argued that dispersal of power to local levels was essential for democratization. Aye Khan of Pakistan, for example, called the establishment of local councils a prerequisite for "Basic Democracy" (Friedman, 1983: 37). Such arguments could

be just rhetoric and motivated by political considerations. The national leaders' preoccupation with decentralization could have stemmed from their struggle for control over the territory. On the other hand, their realization of the inability of central government to serve local people had also made them argue for decentralization. Kasfir, for example, notes that in Africa, poor communications and transport facilities, illiteracy, and poverty also strengthened the case for government managed by local people. The enormous linguistic, ethnic and cultural diversity that marked all African countries further support the insistence of officials that decentralization was the most pragmatic policy they could adopt (1985:31).

The formation of decentralized governments in developing nations was also part of the colonial legacy. In Africa, when negotiations were held to prepare independence constitutions, the departing colonial rulers – anxious to leave their domains in good order – tried to leave behind formal democratic constitutions that required the establishment of local self-government (Kasfir, 1983:30). In India, the British government also tried to reorganize the traditional system by creating locally elected councils (Friedman, 1983:36). In Papua New Guinea, the formation of provincial governments had also been initiated before its independence, partly in response to problems of inefficiency in the highly centralized colonial administration and the increasing demand for greater participation in government (Regan, 1997:10).

The trend, however, reversed in the late 1960s. Shortly after independence some governments, such as in Senegal, Guinea, and Ivory Coast eliminated election of municipal officials in favour of appointment by the Central government. In Zaire, the autonomy of provinces was stripped and urban communes were transformed into administrative units reporting to the central government. In Nigeria following the 1966 coup d'état, the military

appointed "sole administrators" and made them responsible for all functions formerly carried out by divisional, district and local councils (Kasfir, 1985:32-33). In India, some modifications were made to limit self-government in local affairs (Friedman, 1983:36; Tummala, 1997:50). The 1960s saw an increase in the role for central governments in the provision of services in Latin America. By the end of the 1960s, in most developing countries, government became more centralized.

In most countries, central domination of local governments was partly due to the desire to prevent internal diversity from fragmenting the new nations. The centralized leadership was seen as necessary for national consolidation. As Manor notes,

"Since many of the emerging Asian and African leaders seemed heroic figures after years in opposition to foreign rule, it was easy for people to trust and even to revere them, to share the leaders' belief in the moral rectitude of commandist governance. Ordinary folk worried far less than they do today about ensuring that politicians be held accountable for their actions. Faith in these leaders, who seemed more inspiring than prominent figures in the private sector, translated easily into faith in the concentration of state power over which they presided (Manor, 1999:21).

This tendency was reinforced by the belief that rapid economic development required rational planning and centralized government.

Central planning was also prescribed by international agencies, such as the World Bank, for the purpose of promoting "modernization" and accelerating social and political change in developing nations (Rondinelli and Cheema, 1983:10-11). In India, for example, the Gandhian vision of self-sufficiency had encouraged the expansion of community development program during the early days after independence. However, when India experienced food shortages, pressure began to build from the U.S. Agency for International Development, the Ford Foundation, and other agencies to pursue more centralized, technology-led approaches to rural development. The contributions of local bodies pursuing micro-level projects were de-emphasized. This policy, together with the desire of state-level

legislators in India's federal system to claw back powers that had been decentralized, led gradually to the demise of the Community Development Program (Manor, 1999: 19).

In Africa, according to Kasfir, the removal of decentralized government was also motivated by the fact that the imposition of imported institutions contradicted traditional social practice. Diverting economic resources from local governments for the benefit of one's extended family or ethnic allies may be regarded as a moral act in Africa. The continuing influence of traditional moral beliefs about political obligations meant that the expectation of proper public conduct required by the imported institutions of the West could not be fulfilled. The fundamental poverty of Africa has further undercut support for decentralized government. Revenue had never been sufficient to permit adequate implementation of the tasks assigned to local government. Trained manpower was difficult to find at the local level because the few educated went to work for the central government as soon as the opportunity opened up. Corruption was rampant as a result of poverty (Kasfir, 1985:36).

The desire of national leaders to stay in power was another overriding reason why central government officials dismantled local government. Before independence, decentralization provided leverage in the struggle for self-rule. But thereafter, it became a threat to the government in power. As Kasfir notes,

In many African countries, leaders reached national office by building coalitions of local or regional notables who could contribute their followings for particular political activities. Political leadership of this sort can be effective only when the ruler has the access to resources and the willingness to use them to maintain a following of clients—who will in turn be given the means to do the favours of clients of their own. But political support based predominantly on material incentives is unstable—a rival leader can always offer a potentially more lucrative arrangement. Decentralized government would provide opportunity for those out of power to create competitive patronage networks (Kasfir, 1985: 37).

In Latin America, rapid urbanization laid bare the inability of local governments to meet growing demands for urban infrastructure. Virtually every government in this region reacted not by strengthening municipal government, but by creating new central government bodies that stripped municipalities of their formal role as service providers at the local level. As a result, a widespread process of “demunicipalization” took place throughout the subcontinent. Responsibility for the delivery of important services such as the urban water supply, transportation, public housing, primary health care and education was transferred to the central government (Nickson, 1995, in Burki, Perry, and Dillinger, 1999: 10).

In the late 1970s, discontent over the results of centralized planning and administration and a new belief in the value of participation and rural development, led some developing nations to reintroduce decentralization (Benaissa, 1995:1; Mawhood, 1983:8; Rondinelli et al., 1984: 3-4). The need to implement decentralization policies was also strengthened by the central government’s intention to shift part of the burden of financing public services to local levels. In the 1970s, most developing countries faced severe financial problems, decreasing levels of exports, rising prices for energy and imported goods, and diminishing foreign assistance. Decentralization appeared to be at least a partial solution to their growing problems (Rondinelli et al., 1984:3).

In the 1970s, the most frequent form of decentralization introduced was deconcentration. In Asia, field agencies of central ministries were created to assume responsibilities previously exercised by central offices. In addition, provincial and district authorities were also given the opportunity to propose and implement local projects. For this purpose, they received grants from the central government. In addition, regional development councils, for example in Indonesia, Thailand, Pakistan, the Philippines,

Thailand, and Sri Lanka, were established to translate national development goals into local projects and to coordinate the activities of national ministries and their field offices within the region (Mathur, 1983:69).²

In countries such as Ghana and Nigeria, "mixed" arrangements were introduced (May, 1997:2; Mawhood, 1983:8; Rondinelli et al., 1984: 13). Local authorities now performed a number of responsibilities, which had previously been carried out by the central agencies. The government of Sudan, however, made extensive attempts at devolution. Provincial councils and provincial commissioners were given responsibility to manage nearly all public functions, except national security, post, communications, foreign affairs, banking, and judiciary, which were reserved to the central government. Provincial governments also had power to impose local taxes and fees, maintain law and order, finance public projects, prepare annual budgets, recommend development projects to central government agencies, and establish and administer self-financing development activities. Responsibilities for local services were given to localities (Rondinelli, 1984:21).

Despite the vast scope of the various programs, the results were rather ambiguous. In Asia, decentralization succeeded in expanding the capacities of central bureaucracies to administer local development projects in more effective and efficient ways, but at the expense of local governments. Local governments were viewed as bureaucratic instruments of implementation. They were permitted technical and administrative authority to implement, but not the political authority to introduce programs suited to their local environments. In Asia, local leaders were seen by central government officials merely as communicators and solicitors of support for national policies, rather than as channels

² Regional development councils in Indonesia, the Philippines, and Thailand, were linked with central institutions in a way that clearly constrained their discretion (Mathur, 1983:69).

through which the conditions and needs of local communities were articulated and made known to central planners and policy makers. Nor were they seen as mobilizers of local resources for promoting development from “bottom up” (Friedman, 1983: 41-43,). In Kenya, Sudan and Tanzania, despite the attempts made to decentralize development planning and administration, their systems remained essentially centralized (Rondinelli, 1983:77-79). In fact, in most countries, decentralization programs created greater local dependency on decisions and resources from the centre (Mathur, 1983:74; Harris, 1983:197).

A study by Rondinelli et al. shows that most countries experimenting with decentralization faced serious problem of implementation. Some problems arose from insufficient central political and bureaucratic support and others from ingrained centrist attitudes and behaviour on the part of political and administrative leaders. In some countries, decentralization policies and programs were inappropriately designed, organized and carried out. Nearly everywhere it was tried, decentralization was weakened by the failure to transfer sufficient resources to those organizations to which responsibilities were shifted (Rondinelli et al. 1984: 46-69). As Larmour argues, constitutional and legal autonomy means little if local governments lack resources, staff, money and authority (1985:356).

The 1990s saw an increased interest in political decentralization. A World Bank study shows that 75 out of 87 developing and transitional countries have been moving towards a more decentralized system of government (Dillinger, 1994:8). One explanation for the renewed interest in political decentralization in developing countries lies in the increasing political demands for democratic self-rule in countries previously governed by authoritarian regimes. This is the case in Nepal, the Philippines, Thailand, and many others,

which have undergone the transition from autocratic to democratic rule in recent years (Azis and Arnold, 1996:1; Brillantes, 1998: 44; Martinussen, 1995: 39).

Another explanation for increasing attempts to devolve more power to local levels of government has been growing demand from different social groups for greater political autonomy. A fundamental attempt at devolution was introduced in Sri Lanka in 1987 in an attempt to offset separatist demands in the northern and eastern parts of the country (Slater, 1997:254). The establishment of provincial governments with a considerable degree of autonomy in Papua New Guinea was partly due to the emergence of nationalism in northeast Gazelle and Bougainville (Regan, 1997:10). Thus, decentralization was seen as a means for coping with problem of political instability created by secessionist movements.

One other explanation for growing interest in decentralized government has to do with regimes' need for legitimacy and grass roots support (Crook and Manor, 1998:1). In Ghana, for example, decentralization was initiated in 1988 by the Provisional Defence Council (PNDC) government, which was born out of a military coup in December 1981, in an attempt to resolve the legitimacy crisis faced by the Rawlings' military regime (Oquaye, 1995:210; Crook and Manor, 1998: 204-205). Similarly, the Bangladesh experiment in democratic decentralization (1985-1991) was the creation of General Ershad who had seized power in a military coup in 1982. The establishment of sub-district councils was seen as a strategy to obtain allies in rural areas and to facilitate the creation of Ershad's own Jatiyo party (Crook and Manor, 1998:86-89). The enactment of the 1991 Local Government Code, which guaranteed a significant degree of autonomy to local governments in the Philippines, was partly motivated by the urgent need of the Aquino government to obtain support from local politicians (Rood, 1998:61).

One other important explanation of widespread political decentralization has been pressure from international donor agencies. In some African countries, the World Bank made decentralization conditions for the grant of Structural Adjustment loans (SAPs), which were aimed at promoting “good governance”. In Bangladesh, the Philippines, and many others, foreign donor agencies also played a greater role in encouraging decentralization. However, the drive from donors seldom led to decisions to adopt decentralization (Manor, 1999:29). Those decisions seemed to arise primarily in response to domestic pressures and were rooted in the domestic political concerns of the regimes (Crook and Manor, 1995:312).

As motives behind the introduction of political decentralization varied, the form and extent of decentralization also varied among countries. In part of Africa, decentralization was marked with the creation of political entities in the territories that were formerly administered by the central government. In Latin American countries, such as Venezuela, Colombia, and Argentina, decentralization was a shift from centrally appointed to locally elected mayors and later elected governors. In these countries, this process was accompanied by the transfer of major services to sub-national levels of government (Burki, Perry and Dillinger, 1999:12). In Asia, the focus was on transforming the function of local governments from mere instruments or agents of central governments into more autonomous units or levels of governments. In most countries, the devolution of power to local levels was also accompanied by significant increases in intergovernmental transfers (Dillinger, 1994:8; Azis and Arnold, 1996; Fukasaku and Hausmann, 1998:13).

It is hardly surprising that the form and extent of decentralization introduced in one country differs from that adopted in another country. As Smith argues, the decisions about the decentralized structure of a nation-state are political rather than technical. The

distribution of power between levels of government, as well as the choice of institutions for decentralization is the outcome of political forces in conflict (1985:201-2). In Mexico, for example, substantial power and resources were devolved as opposition parties became increasingly influential in the congress. More genuine decentralization measures were the price the government party had to pay for support from the opposition parties on other legislation (Burki, Perry, and Dillinger, 1999: 2).

Although intensive attempts have been made for decentralization, recent studies suggest that the gap between the goals of decentralization and the results of policy implementation remained wide in developing countries.³ Despite the rhetoric that decentralization was aimed at promoting local self-government, most governments remained centralized with the regions taking directives from the national capitals. In Ghana, local governments were created but power to make decisions was given to the executive committee, formed mostly from among the elected and nominated members of the district council, and chaired by the district secretary, who was appointed by the central government. Local budgets must be approved by the central government, and all decisions on staff hiring, promotion and dismissal were made by the central government. Similarly, devolution of power was also restricted in Nepal, as the legal frameworks did not confer any wide-ranging power to local authorities. The central government not only had formal power to intervene and direct the local authorities, but also the right to suspend and dissolve popularly elected bodies. In India, municipal councils were locally elected, but state governments could legally dismiss mayors whose performance they found unsatisfactory

³ Among others are studies by Ayee (1995), Estache (1995), Martinussen (1995), Slater (1995), Azis and Arnold (1996), Crook and Manor (1998), and Fukasaku and Hausmann (1998).

(Ayee, 1995; Dillinger, 1995: 8; Martinussen, 1995: 51). Limited political autonomy granted to local institutions has been a great constraint on local self-governance.

In some countries, local governments did enjoy greater autonomy. However, having greater discretion over local affairs did not automatically make them more responsive to locally felt-needs. In countries with a caste system, the distribution of power in local institutions reflects the distribution of wealth in society. In Karnataka, India, for example, 20 percent of council's seats were reserved for disadvantaged groups (the lower castes). This arrangement did not prevent landowners and members of other relatively well-off castes from maintaining their dominance in councils at both district and *Mandal* levels (Crook and Manor, 1998:279). In Bangladesh, where most local councillors were elected from the local elite, local decisions tended to cater to the interests of those councillors, or their class interests, rather than those of the masses. As Zarina Khan notes,

Only an extremely limited number of "middle farmers" or owner-cultivators gained places on the lower level union council. Scarcely any become union chairmen and thus gain a seat on the district councils. Since decentralization created significant openings for village elites to influence government institutions, its overall impact was to intensify already extreme inequalities" (Khan in Crook and Manor, 1998:99).

Thus, the way in which the society is structured will also affect the outcome of decentralization.

In most countries, transferring decision-making power to local levels did not affect the amount of public services available to the people. In Ghana, the impact on the output of development projects between 1982-1992 was marginal. Some projects were stopped due to inadequate financing. While power to raise revenue was limited, attempts to maximize revenues were hampered by lack of local capabilities. Moreover, establishing local institutions was expensive. As a consequence, about 80 percent of local budgets were spent

on recurrent expenditure, such as travelling, and maintenance of district assembly vehicles (Ayee, 1995:44). A similar tendency was also found in Nepal (Martinussen, 1995:114-123).

In addition to lack of funds, inadequate manpower was also to blame for poor performance in Nepal. Neither the District Development Committees (DDCs) nor the Village Development Committees (VDCs) possessed suitably qualified and adequately trained staff to perform the functions formally assigned to them (Martinussen, 1995: 130). In the Philippines, together with the shift in responsibility for the delivery of basic services was the transfer of personnel from national government agencies to local governments. This policy, however, could not be fully implemented because the transfer of personnel would bring the consequence that more than half of local budgets would be used for salaries (Brillantes, 1995:202).

In Bangladesh, where resources allocated to local authorities were substantially increased by the central government, development outputs undoubtedly increased compared to the previous forms of administration. There was a question, however, whether those outputs corresponded with popular needs, due to elite bias (Crook and Manor, 1995: 320). Similarly, in the Ivory Coast, outputs clearly improved during the initial phase (1985-1989), but the commune executives tended to favour infrastructure projects such as school buildings or town halls, which were not necessarily highly valued by ordinary farmers or the poor (Crook and Manor, 1995:321). Thus, local decision-making does not necessarily increase the responsiveness of local governments to local needs and preferences.

Decentralization also tended to increase government spending. The transfer of responsibilities for some services to sub-national levels did not cause national spending on those areas to decrease. On the other hand, the transfer made regional authorities spend more (see Estache, 1994). In Latin America, local decision-making has been accused of

contributing to the problem of overspending and budget deficits. As responsibilities over some functions were shared by more than one level of government, local governments were able to extract more resources from the central government by choosing to underprovide in areas of joint jurisdiction. Such practices caused the central government to spend more on local services. As Fukasaku and Hausmann argue, “a clear separation of roles and responsibilities is necessary because it can permit a better control of central government budgets, better planning and provision of services, a more transparent use of state and local resources” (1998:28).

Decentralization seems to have failed to promote accountability in many countries. In Nepal, making bureaucrats accountable to local politicians was difficult. Local bureaucrats felt very reluctant to accept the guiding role of newly created councils or even provide information to elected politicians as they looked down on local representatives who had little experience and modest education (Matinussen, 1995: 95). A similar problem occurred in Ghana. As Manor argues, “in countries where democracy has been either non-existent or an off-and-on phenomenon, bureaucrats tend to have little regard for politicians—especially the sort of small fry who get elected to decentralized councils” (Manor, 1995:85).

In Bangladesh, India, and Nepal, where villagers had a “servant-master” relationship with council representatives, the accountability of local politicians to the citizens was also weak. Such a situation did not support the making of complaints about bad behaviour or lack of accountability (Crook and Manor, 1997:296-288). In Latin America, weak accountability was especially due to their inefficient electoral systems. Under a multi-party system with proportional representation, local politicians had few incentives to listen to their voters (see Fukasaku and Hausmann, 1998). Relationships between elected councillors

and voters also tended to be weak in countries with a single-party system, or where the ruling party is so dominant that in practice most of the country is under a single party (Crook and Manor, 1998:294-296).

Why Political Decentralisation Failed

It is clear from the discussion above that political decentralization did not work well in many developing countries. Programs were inappropriate and the necessary conditions were not met. The main obstacles to effective political decentralization in developing countries have been political rather than technical.

In many countries, the division of responsibilities between different levels of government was not clearly defined even though the procedures for differentiating roles are technically straightforward. The reason was that shared arrangements allowed the centre to retain a degree of control over decisions made by local authorities. As Conyers notes, the decision on which functions are to be decentralized, and to where, is a complicated and sensitive matter since it determines the effective control or authority which the central and subordinate levels of government have over functional activities which are decentralized (Conyers, 1986: 94).

In developing countries, as Bahl and Lynn point out, the argument for fiscal centralization was also strong (1994:4). One justification was that their economies were less diversified and more vulnerable to international fluctuations in commodity prices, natural disasters, worldwide recession and so forth. Therefore, central control over the main taxes and borrowing instruments was very important for maintaining stability of the country. Another justification was that capital was scarce in developing countries and its use should be controlled by the central government in order to maximize returns. One other

justification is related to income distribution. Regional disparities in income and wealth may be accentuated by fiscal decentralization because wealthier regions will benefit most from the decentralization of tax powers. Centralization allows governments to reduce differences (Bahl and Lynn, 1994: 4). Consequently, local revenues were minuscule and local budgets depended heavily on transfers from the centre. Local reliance on the central government for funds further reduced their autonomy.

In most countries, leaders did not feel they were ready enough to experiment with more independent local governments, especially with local institutions that function as instruments for wider political participation. In addition, many leaders did not have much confidence in local politicians and administrators. While local pressure from citizens was weak, greater power was believed to lead to corruption. Therefore, it was believed that only the central government could correct the bias in allocating resources among the different groups in the society. Moreover, national leaders did not feel like relinquishing their control over regions. As Olowu points out,

...when African policy makers speak of decentralization they are actually seeking extension of the power and tentacles of the central bureaucracy to control the countryside rather than the promotion of self-governance (in May and Regan, 1997: 2).

The expressed concern of central politicians and bureaucrats that decentralisation would lead to more corruption at the local level may have disguised their real interest in keeping corruption opportunities within their own sphere of authority. It was not surprising, therefore, if they introduced programmes which only created new arrangements for the bureaucracy to control the countryside. As Crook and Manor conclude, both decisions to decentralise and the form which decentralisation took owed much to domestic political calculations and to political tradition and experience (1995: 312).

The importance of decentralisation has been advocated in Indonesia since its independence. The 1945 Basic Constitution requires the formation of administrative and autonomous sub-national levels of government. Attempts to decentralize power to the regions have been initiated since the 1950s. But all laws on decentralization introduced between 1945 to 1965 failed to establish a decentralized system of regional government in Indonesia. It was primarily due to difficulties in finding a combination of central control and local autonomy that benefits both the center and the regions. As Turner and Hulme (1997:152) say, "All system of government involves a combination of centralized and decentralized authority. However, finding a combination of central control and local autonomy that satisfies regime needs and popular demands is a persistent dilemma for governments."

During the New Order government, a new law on decentralization was issued. This law, however, did not intend to devolve power to sub-national government. Instead it was designed to strengthen central control over the regions. Some decentralization initiative had also been introduced with the supports of donor agencies such as the World Bank, Asian Development Bank, USAID, and GTZ. But most of common type of decentralization introduced had been deconcentration. Those initiatives had provided more opportunity to local authorities to implement development programs. But they could not satisfy regional needs for more power in public decision-making.

The fall of Suharto's government in 1998 has given rise to a widespread demand for democratisation. This has paved the way for the introduction of political decentralisation in Indonesia through the enactment of Law No. 22 of 1999 on regional government. At the same time, fiscal decentralization was also introduced through the issuance of Law No. 25 of 1999 on fiscal balance. The implementation of these two laws affects not only the

intergovernmental relations, but also the way all levels of government interact with community. Although controversies surround those laws still continue, nevertheless, the programs have given the regions with opportunity to experience a degree of autonomy in managing local affairs.

Chapter III

Historical Background of Decentralization in Indonesia

Decentralization was first introduced in Indonesia by the Dutch colonial government in 1903. Although the program did not intend to establish a genuine decentralized system of government, this experience had its legacy in the period immediately after World War II. Since 1945, decentralization had always been on the government agenda. Unfortunately, none of the programs introduced between 1945 to 1998 effectively countered the centralizing tendencies in the administration of sub-national levels of government in Indonesia. Debates on the need to grant more autonomy to regional levels continued, and still continue to this day.

This chapter discusses Indonesian experience in implementing decentralization policy before the New Order period.¹ This discussion is expected to help understand the historical context of decentralization in the New Order Indonesia. Past experience is important because it influences the perceptions of decision-makers on what is appropriate in dealing with a particular problem. Legacies may also set a limit on what is currently thought possible to implement.

¹ This chapter is mostly drawn from previous studies, such as those by Furnivall (1939), Maryanov (1957), Legge (1961), Walker III (1967), Gie (1968, 1993) and Kansil (1991).

The Legacy of the Colonial Administrations

By the end of the nineteenth century, most of the regions, which now comprise the Republic of Indonesia, had been brought under Netherlands East Indies (NEI) rule. This colony was governed by a governor-general in Bogor, West Java, based on the *Reglement op het Beleid der regering van Nederlandsch-Indie* (S 1855/2), the basic law for the government of the NEI. To standardize the administrative system of the NEI, the Dutch expanded the system of government it previously developed in Java to the Outer Islands.

In general, two broad systems of administration were applied in the East Indies: direct rule (*Direct bestuur gebied/Gouvernements gebied*) and indirect rule (*Indirect bestuur gebied/Landschapsgebied*). The former refers to the system of administration imposed in the areas which were under the direct control of the NEI government, while the latter refers to the system of government in areas where agreements between the NEI and traditional rulers granted a degree of recognition to particular principalities as self-governing states within the framework of the colonial government. The agreement could be in the form of a "long contract" or a "short declaration".² In these areas, the lower administrative units were only indirectly controlled by NEI government (Legge, 1961:22-23; Walker III, 1967:63).

Territory under the direct rule system was divided into five levels of administrative units: the *gewest* (also called *residentie*), the *afdeling*, the *onderafdeling*, the *distrikt*, and the *onderdistrikt*. The first four levels were headed by the Dutch officials called Governor or Resident, Assistant Resident, *Controleur*, and *Gezagherber* respectively. The

² A long contract was a bilateral agreement which enumerated the rights and duties of both signatories but guaranteed *huisholding* (household) rights, i.e. to manage internal affairs, to the states. In contrast, a short declaration was a unilateral treaty under which the native submitted to the sovereignty of the East Indies government, agreed not to have political relations with foreign nations, acknowledged the right of the Indies government to impose administrative regulations on the state, even over *huisholding* affairs. Long contracts were made between the NEI and the traditional rulers in Yogyakarta and Surakarta (Java), Pontianak (West Kalimantan), and Deli-Serdang (East Sumatra). Short contracts were mostly found in the eastern islands.

onderdistrikt was usually led by a native civil servant (*pangreh pradja*).³ The villages were left to the traditional village heads to govern based on *adat* (traditional) rules. In Java, native administrators were also appointed to the positions of Bupati (equal to assistant resident) and below. In the Outer islands, due to lack of native administrators, the activities of the Dutch officials were expanded to *onderafdeling* level (Kansil, 1991:15-16).

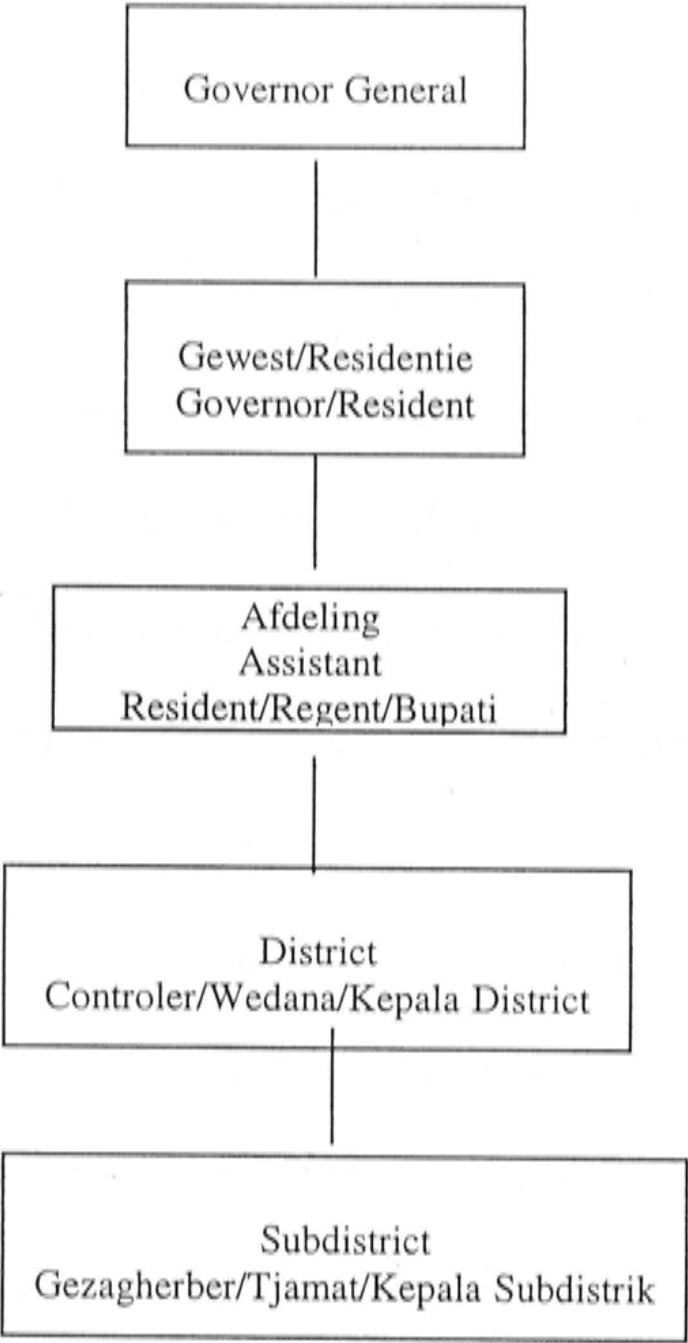
In Java, the boundaries of these administrative units usually coincided with those of the traditional administrative divisions. In the Outer Islands, in contrast, the territory of these administrative units was not necessarily based on the boundaries of the native states or of smaller *adat* communities, but rather based upon the size of the territory that could conveniently be supervised by the *controleur* or the *gezagherber* (Walker III, 1967:65-66).

The administration of the regions during the colonial era was highly centralized to effectively exploit and control the colony. This system caused every central government official to carry a heavy administrative load. To alleviate this burden, in the early 1890s De Wall, the Colonial Minister, proposed the establishment of residency councils to allow decisions over certain matters to be made at the residential level. The proposal was rejected by NEI government, as were several later plans with the same objective (Furnival, 1939:261-262). However, the Ethical policy, which was introduced at the beginning of the twentieth century, helped pave the way for limited decentralization and the beginning of popular participation in government in the Netherlands Indies (Walker III, 1967:77).⁴

³ The *pangreh pradja* originated from old gentry who were given special privileges by the Dutch colonial ruler (Nordholdt, 1987:18).

⁴ The ethical policy had two objectives: promoting development by western enterprises and promoting social welfare through the villages (Furnival, 1939:227). The Welfare goal was, however, not the main reason why Western enterprise was promoted.

Figure 3.1. The Structure of Regional Administration under Dutch Administration.



In 1903 the first decentralization law, the *Staatsblad* 1903/329, was issued. This law allowed the formation of several levels of *locale ressort* possessing a degree of autonomy over their own affairs. In addition, these autonomous units were also given the power of *zelfbestuur*, the obligation to implement legislation issued by the centre or a higher level of administration. For this purpose, a certain portion of the central budget was to be allocated to these regions. These regions were also to be equipped with their own councils and their own administration. To implement this law, the *Decentralisatie Besluit* was passed in 1904. Based on this *besluit*, the Governor General of the Netherlands Indies issued *Locale Raden-ordonantie* that established three types of regional councils: *Gewestelijke Raad* for the residencies; *Plaatselijke Raad* for units under the residencies, and *Gemeente Raad* for urban centers (Kansil, 1993:17; Gie, 1993a: 16). In the case of the residencies, the councils were to be chaired by the residents who were members of the civil service, and members were to be nominated from among all the major communities, such as the Dutch, Indonesian, Arab, Chinese and Indian. For the urban councils, the law provided for elections with a limited franchise for a portion of seats allotted to each community and allowed the appointment of a *burgemeester* who was not necessarily a member of the civil service (Walker III, 1967:80).

The implementation of this decentralization law, however, caused disappointment on the part of native Indonesians who had expected to play a larger role in the government and to use the council as an arena for political influence and training (Gie 1993a: 17). Residency and municipal councils were established in Java and the Outer Islands during succeeding years, but decentralization was little more than administrative decentralization, except for the municipal councils, which had larger Dutch populations. The regional council was more a means of facilitating the task of the central government than a means of enabling a genuine expression of the will of the local population. Council members were appointed

from among government employees, both European and Indonesian (De Kal Angelino, in Legge, 1961:6). "The effective power lay with the chairmen of councils who were officials of the central government. The council system enabled the chairmen to draw on a reservoir of local knowledge and to acquaint themselves with local feeling. It was thus designed to offer greater efficiency, rather than greater autonomy"(Legge, 1961: 6).

A new reform measure, *Bestuurhervorming* was enacted in 1922. This law enabled the regrouping of the existing residencies to form a new but larger territorial division called the province. This unit was further divided into several regencies (*regentschap/groepsgemeenschap*) and municipalities (*staad gemeente*) and charged with the management of their local affairs. The structure of government in these units was made uniform. Governors, regents and burgemeesters headed the provinces, regencies, and municipalities respectively. At each level, *raad* (regional councils) and *college van gedeputeerden* (boards of deputies) were also established. These boards of deputies were charged with assisting the regional heads in carrying out their duties.

To implement this law, a provincial ordinance was passed in 1924. This law established several administrative areas, which were known as "governments". These units were later to be converted into provinces or autonomous units, once their provincial councils were established. The provincial council had the right to select the Board of Deputies from the senior members of the council or from qualified non-members. The regional head or Governor who was appointed by the Governor-General chaired these two bodies. In addition to being head of the regional government, the Governor was also a representative of the central government and was responsible for the general coordination and execution of central government administration in his region. He or she also had the

right to veto any decision if he or she felt that it did not serve the general interest (Legge, 1961:6-7; Walker III, 1967:83).

The law specifically regulated the composition of the councils. The number of Dutch members was usually equal to, or greater than, the number of Indonesian members, while no more than five percent of the total represented the Chinese, Indian and Arab communities. Of the Dutch and Indonesian members, about half were elected, the other half nominated. The representatives of Foreign Asiatic groups were appointed from among those persons of foreign ancestry who had taken Dutch citizenship. These provisions enabled the government to control a majority in the councils. The fact that the Secretary of the Governor also served as the Secretary of the regional councils made the control over councils even tighter.

The law also divided the provinces into sub-regions designated as autonomous communities with their own councils. In Java this article was interpreted as applying only to regencies. The general structure of the regency council resembled that of the province. Elections were indirect and based on proportional representation (Kat Angelino in Walker III, 1967:85). A board of deputies was also established in every regency. The regent chaired both bodies. The appointment of the regent was made by the provincial governor. The secretary of the council was also the secretary of the regency. However, the regent did not have veto power. If he felt the actions of the council were inconsistent with the public interest he could refer it through the provincial board of deputies to the Governor-General.

Following the adoption of this law, governments were set up in Java, Sumatra, Sulawesi and the Great East. The transformation of governments into provinces was soon implemented in Java but the process was very slow in the Outer Islands. When the Second World War broke out in 1941, none of the governments in the Outer Islands had been converted into a province. According to Walker III, the process was complicated not only

by the wide variety in size and composition of the native states but also because these areas consisted of both directly and indirectly ruled regions. Moreover, neither the Dutch nor the Indonesian nationalists really took initiatives to introduce immediate reform in the Outer islands. The Dutch considered these islands of little importance to the economy of the Indies. Raw materials were abundant, but inaccessible for profitable exploitation. Moreover, labour was scarce. The nationalists too, who were mostly based in Java, were not really concerned with political reform in the Outer Islands. Consequently, the demand for decentralization in these areas received a much lower priority (Walker III, 1967: 93-94).

The outbreak of the Second World War terminated the experiment. In 1942, the Japanese occupied the Netherlands Indies. The territory was soon transformed into three military regions: Java and Madura, under the control of the Japanese army commander (*Guisenkanbu*) of Java in Jakarta; Sumatra, under the control of the army commander of Sumatra in Bukittinggi; and other islands, under the control of the navy commander (*Minseibu*) in Makasar. All regional councils set up by the Dutch were abolished. In the outer islands the structure of regional government inherited from the previous regime was continued with few changes. But in Java, all provinces as well as senior positions in the provincial administration were abolished, and the former residencies revived. These units (called *shu*) became very important administrative units. The residents assumed, for the areas under their jurisdiction, all the functions formerly held by the Governor-General, the governor, the provincial councils and their boards of deputies. The Residents, who were Japanese military or civilian officers, were directly responsible to the commander-in-chief in Jakarta. As the representatives of *gunseikan*, their veto over decisions of lower administrators was absolute. Police responsibility for the entire residency also emanated from the residents' offices. Important ports were classified as municipalities (*tokubetsu shi*),

which were placed under the close scrutiny of the military commander (Walker III, 1967:110-111).

Principalities on Java, such as Yogyakarta, Pakualaman, Mangkunegaran and Surakarta, were excluded from the law. In these areas, the administration of the pre-war regime was retained, but Japanese officials now filled the position of governor and some other important positions. The Sultans were required to break their ties with the Dutch Government. The administration of villages was also left untouched except that the headman was now elected for a specific period of four years (Walker III, 1967:114-115).

To mobilize support for the war effort, the Japanese allowed the formation of a political organization called Poesat Tenaga Rakyat (Center for People Effort) or Poetra in 1943. Four leading Indonesians were appointed to lead it: Sukarno; Hatta; Ki Hadjar Dewantara; and Kyai Haji Mas Mansur.⁵ The formation of Poetra was intended to be the first stage in preparing the nation for self-determination. But in 1944, this organization was dissolved because it was seen as accomplishing more for the Indonesian nationalist movement than for the war effort. Poetra was replaced by *Java Hokokai* (Java Service Association), which was designed to provide an umbrella organization for mobilizing the people of Java. This organization had the organizational means to penetrate even the villages (Ricklefs, 1993:204-206).

⁵ Soekarno was the founder of Partai Nasional Indonesia or PNI (the Indonesian National Party). When PNI was dissolved 1931, he joined Indonesian Party (Partai Indonesia or Partindo), which had the same goal as PNI of achieving independence through non-cooperation and mass action. Soekarno was sent into exile several times for his political activities. He became the first president of the Republic of Indonesia. Hatta was the chairman of Perhimpunan Indonesia (the Indonesian Association), an organisation for Indonesian students in the Netherlands (1925 to 1930). In 1927 he was arrested for encouraging armed resistance to Dutch rule in Indonesia and spent five months in prison in The Hague. Following his return to Indonesia, he joined PNI. He became the first vice president of Indonesia. Ki Hajar Dewantara was a relative of Pakualam (Yogyakarta's Sultan of Pakualaman). In 1911 he joined a political party called the Indische Partij (Indies Party). In 1913 he was exiled to the Netherlands for his affiliation with Indische Partij and released in 1919. On his return, he founded Taman Siswa, a school that combined modern European-style education and the traditional Javanese culture. Kiai Haji Mas Mansur was the chairman of Muhammadiyah, a modern Islamic organisation focusing on educational and welfare efforts.

At the same time, the Japanese began to promise some Indonesians involvement in the affairs of government in Java. A Central Advisory Council (*Chuo Sangi In*) was established in Jakarta with Soekarno as chairman. A regional council (*Shu Sangi-kai*) was formed in every residency (*Shu Sangi-kai*) and municipality (*Tokubetsu Shi Sangi-kai*). These councils were charged with providing advice to military authorities concerning such problems as discovering new ways of collecting rice and food, attracting popular enthusiasm for war effort, and conscripting labourers for building strategic defences (Gandasubrata in Walker III, 1967:117).

To gain more support for the worsening war, the Japanese also began to promise independence for the East Indies. In March 1945, the Japanese announced the formation of an Investigating Committee for Preparatory Work for Indonesian Independence (*Badan Penyelidik Usaha Persiapan Kemerdekaan Indonesia* or BPUPKI) composed of the most outstanding leaders of Java from all the main schools of thought, such as the nationalists, the socialists, religious leaders, and bureaucrats. In addition, seven Japanese representatives were also appointed to the committee. This committee was chaired by Dr. Radjiman and met several times in Jakarta from May 28 to July 17 1945 in the Volksraad building in Jakarta (Nasution, 1995:10; Ricklefs, 1993:208-209).⁶ Its tasks, as stated in the *Makloemat Gunseikan* No. 23 on the formation of BPUPKI, was to investigate any political, economic, administrative, legal and defence measures needed for the formation of an independent Indonesia. This committee was required to report regularly to the *Gunseikan* (the Japanese Military Commander) in Jakarta (Kan Poo, NO. 66-2605, in Simandjuntak, 1994:75).

⁶ Dr. Radjiman was a medical doctor and member of *Boedi Oetomo*, an organisation for Javanese *priyayi* (members of official class), focusing on promoting education and entrepreneurship.

BPUPKI's Debate on Decentralization

From the first day of the BPUPKI's first session, conducted from 29 May to 1 June 1945, the committee was confronted by three basic questions: the philosophical foundation of the state; the territory; and the form of the state and government. With regard to the form of government, Yamin, speaking on the first day, proposed the future Indonesian state be a republic with a unitary system.⁷ He rejected the idea of a monarchy for its feudalism. He argued that only in the form of a republic could a democratic state be realized. He argued for a unitary system on the ground that a federal system might prevent Indonesia from becoming a strong state. Yamin thought, the geographical and ethnic diversity of the archipelago, and the various forms of rule under Dutch occupation, might cause difficulties to the centre in exercising its authority, if a federal system was adopted. He regarded a strong state as necessary for Indonesia's continued existence and believed that only through a unitary system could a strong state be built (Sekretariat Negara, 1995: 21-29; 185-188).

Hatta, who apparently spoke after Yamin, also raised this issue but his speech is no longer available.⁸ During the BPUPKI's second session, it was clear that he was one among those who fought for a republic. As he explained later in one of his speeches,

the experience with colonial autocratic government had given rise to the ideal of a democratic constitutional state in the minds of the younger generation of Indonesia. The state it was believed should have the form of a Republic based on the sovereignty of the people (Hatta in Feith and Castles, 1970:35).

⁷ Mohammad Yamin was a lawyer who had interest in literature. He was the chairman of Partindo (1932 - 1938), and member of POETRA. He was one of the main drafters of the 1945 Constitution.

⁸ The records of the BPUPKI's first meeting are not complete. Unfortunately, only the record of speeches from Yamin, Soepomo and Sukarno could be found in both Yamin's collection and also in Pringgogidgo's collection that was discovered in the early 1990s in the Netherlands. The two collections, however, have no significant differences. From Soepomo's speech on the third day of the meeting, however, it was clear that Hatta also spoke either on the first or on the second day of the meeting.

He was also an advocate of a parliamentary system with a cabinet responsible to the parliament because he feared that a presidential office vested with excessive power would ignore the people's aspirations (Sekretariat Negara, 1995:262-263; 324-326).

As a strong advocate for regional autonomy, it might be expected he would have argued for federation. However, when the debates on the structure of government occurred during the second session, he did not seem to reject the idea of a unitary state. He seemed to believe that in a unitary state power could be decentralized to local levels (State Secretary, 1995:41). Following independence he strongly advocated greater autonomy for the regions (Kahin, 1994:204). In one of his speeches in 1956, he argued that decentralization would not violate the sovereignty of the central government,

there are still many fields of endeavour that can be governed (by local areas) according to its own desires.... All matters, which exclusively concern the affairs of a region, can be decided with fully authority by the people of that region (Kedaulatan Rakyat, in Maryanov, 1956:12).

Soepomo, an expert in *adat* (traditional) law, however, insisted that the question of Indonesia's *Staatsidee* (state's philosophical foundation) be the top priority because all else flowed from it, including whether Indonesia should become a republic or a monarchy, a unitary state or a federation, and what sort of relationship should exist between the state and society (Sekretariat Negara 1995:32). In his speech, Soepomo argued that the political system of the Indonesian state must coincide with the unique structure of the Indonesian community as it once was and would be in the future. The example of other states, he said, provided cautionary guidance on what to avoid rather than models around which the Indonesian state could be constructed. Based on this argument, he rejected state

organization based on liberalism and Marxism (Sekretariat Negara, 1995:31-43).⁹ Inspired by the totalitarianism principles of German National Socialism and the structure of the Japanese state, particularly the harmonious relations between the Emperor and his people, Soepomo proposed to establish an integralistic state: a state based on the totalitarian ideas of unity between state and societies; leaders and people; centre and periphery; and on the indigenous principle of family (*kekeluargaan*).¹⁰

On the form of government, Soepomo was not really concerned whether the future Indonesian state would be a monarchy or a republic, provided the unity of leader and his people, of state and society, and of centre and periphery could be guaranteed. Nor did he worry whether the head of the state resembled a king, a president, or a *fuhrer*, as long as he possessed all attributes of real leadership. Soepomo seemed to believe in the need for strong leadership in order to unite the Indonesian society. As he argued, “as a leader, the head of the state must point out the way to the noble ideals and aspirations of the people. Moreover, the head of the state should also have the capability of maintaining unity of the state and nation” (Sekretariat Negara 1995:36). But in his speech, he specifically argued for a unitary system. His rejection of a federal system stemmed primarily from his preoccupation with the integralistic idea of the state. As he argued, “a federation would create states under the state” (Sekretariat Negara, 1995:41; 271-272). The existence of autonomous sub-national

⁹ For detailed discussion, see Marsilam Simandjuntak, 1994, and David Bourchier, 1996).

¹⁰ Soepomo's concept failed to gain majority support during the BPUPKI meeting, but his integralistic idea seems to have had a strong influence on the nature of the 1945 Constitution and the way the Constitution was further interpreted by the Sukarno as well as Suharto governments, especially with regard to state-society relations and the relations between the centre and the regions. During the period of guided democracy, Sukarno applied Soepomo's idea of an integralistic state by integrating legislative, executive, and judicial institutions, integrating the three social forces, nationalists, religion and communists (Nasakom), and integrating the ruler and the ruled, state and society by eliminating opposition (Dawam Rahardjo, 1995:57-58). During Suharto's period, Soepomo's concept had also inspired the military in formulating its security concept of Wawasan Nusantara (Kuntjoro-Jakti, 1981:135).

governments clearly conflicted with his integralistic idea of the state where regions were only sub-sets of the total system.

Soekarno, who gave his main speech on 1 June, also emphasized the importance of the unity of the archipelago in the struggle for independence (Sekretariat Negara, 1995:63-84). He quoted Ernest Renan's statement that "the basic requirement for a nation is the desire to be united". He also quoted Otto Bauer's statement in his book *Die Nationalitätenfrage* that "a nation is a community of character which had grown out of a community of shared experience" (Sekretariat Negara, 1995:72). On this basis, he argued that their shared experience under the Dutch colonial time had brought the Indonesian archipelago together to form a nation. He further argued that neither religion nor ethnicity could ensure the unity of these islands. Based on this argument he rejected making Islam the basis for establishing an Indonesian state. He saw the idea of an Islamic state as a possible source of friction among the Indonesian founders, some of whom were non-Moslem. To avoid this friction, he proposed to build a national state based on his idea of *Pancasila* (five basic principles).¹¹ These principles were designed in such a way as to accommodate all the conflicting opinions so far expressed, particularly between those who wanted Indonesia to be an Islamic state and those who did not. These principles, according to Kahin, synthesized western democratic, Modernist Islamic, Marxist, and indigenous village democratic and communal ideas, which formed the general basis of social thought of a large part of the post-war Indonesian political elite (Kahin, 1952: 123).

On the form of government, Sukarno strongly argued for a republic with a unitary system. He believed a republic would ensure the application of democratic principles. In a

¹¹ They were: Nationalism (*Kebangsaan*); internationalism-humanitarianism Internationalism (*Perikemanusiaan*); unanimous consensus and representation (*Musyawarah dan Perwakilan*); social welfare (*Kesejahteraan Sosial*); and Belief in God (*Ketuhanan*).

democratic state, he said, the head of the state was elected by the people, but in a monarchy people could not choose their leader because the state head's position was inherited. In contrast to Hatta and Yamin, who preferred a parliamentary system, Soekarno favoured a presidential system because this system would allow a concentration of power in the executive. Like Soepomo, Soekarno also seemed to believe in strong leadership to unite all parts of the country. His preoccupation with the unity of the archipelago, therefore, caused him to argue for a unitary system.

When the BPUPKI's first session ended on 1 June, no decision had been made either on the form of the state, on the territory, or on its philosophical foundation. The second BPUPKI meeting began on July 10, when the committee agreed that Indonesia would be a republic based on the idea of Pancasila. The following day, three sub-committees were formed: on the constitution, chaired by Soekarno; on defence, chaired by Abikoesno; and on finance and economy, chaired by Hatta.¹²

When the constitutional sub-committee met to decide whether the future Indonesia should be a unitary or a federal state, a majority agreed with a unitary system proposed by Yamin. Others wanted to form a *bondstaat* (a federation). They argued that this system was more suitable to the condition of Indonesia where hundreds of small kingdoms with a degree of autonomy under Dutch administration (*zelfbesturende rijken and landschappen*) existed. If a unitary state was chosen, power might be concentrated at the centre and regions left with nothing. Consequently, these regions could not be expected to integrate into the republic because of their fear that this system would threaten their continued existence and the autonomy of their traditions and cultures (Sekretariat Negara, 1995:211).

¹² Abikoesno was the leader of Serikat Islam (Islamic Union) and member of POETRA.

In response, Yamin urged the Constitutional Committee not to worry that power would be concentrated if a unitary state was adopted. In a unitary state, according to Yamin, power could also be given to the regions through “deconcentration”, the division of power among units under the central government, and “decentralization”, the division of power between central and regional governments. “The division of power between the centre and the regions could be made in a just and righteous way”, he said (Sekretariat Negara 1995:185-186).

In addition, Yamin again warned his colleagues of the dangers of federalism because it might hinder the natural unifying process and weaken the resolve of the new nation to defend its independence against Dutch colonial ambitions. Under a federal system, he said, channels of communication between the central administration and the regions would not be available. Only in a unitary system could the Outer Islands properly assert their claim to be integral parts of the nation, with rights to participate in the machinery of national government. From the angle of nation building, Yamin also feared that federalism would accentuate insularist feelings and possibly give rise to secessionist sentiments. Moreover, he also feared that the differences in the possession of natural resources among the regions might result in a problem of inequality in the society (Sekretariat Negara, 1995:187).

Yamin’s argument seemed effective. When the supporters of a unitary system were asked to stand up, only two out of 19 members of the sub-committee remained seated. The decision was final: a unitary state was to be adopted. The majority apparently believed a unitary system was necessary to ensure unity as well as nation building. However, they were fully aware that geographical and ethnic diversity of the archipelago might be better managed if a degree of regional autonomy was allowed. On July 17, the committee finished

its work by drafting the first constitution, which called for a unitary republic but with a degree of decentralization.

In July 1945, the Japanese renewed their promise that independence would be granted to Indonesia within the next few months. On 7 August, a new Preparatory Committee for Indonesian Independence (*Panitia Persiapan Kemerdekaan Indonesia*, PPKI) was formed. Its members consisted of the members of BPUPKI and representatives from Java and other islands.¹³ This committee was scheduled to meet on August 19. However, Japan surrendered to the Allies on 15 August and a plan for Japanese-sponsored independence came to a halt. Older Indonesian leaders were uncertain what to do, but the youth saw Japan's surrender and the absence of Allied forces as an opportunity for Indonesia to declare its independence. On the morning of 17 August 1945, Soekarno read the declaration of independence in front of a small group outside his house.

On the following day, the PPKI met for the first time. After long debate, the Committee accepted the draft constitution prepared by the BPUPKI. Soekarno was appointed President and Hatta Vice President. A Central Indonesian National Committee (*Komite Nasional Pusat* or KNIP) was established to assist the President (Ricklefs, 1993:210-213). During the meeting, the issue of decentralization was again debated. The majority agreed that the newly proclaimed independent Indonesia would be a unitary republic (Article 1) with a presidential system (Article 3). But considering the existence of hundreds of *Kooti* or self-governing territories (*zelfbesturende landschappen*) in Java and the Outer Islands, many delegates wanted regional governments to be allowed to manage their own affairs (1995: 272). Some members from the Outer Islands, such as Dr. Amir from Sumatra and Dr. Ratulangi from Sulawesi, demanded broad autonomy for the regions. They

¹³ Kansil, 1991:20; Ricklefs, 1993:209

also wanted the division of power between the centre and the regions to be clearly stated in the constitution. Soepomo, however, rejected this idea preferring this matter to be regulated by another law. Due to pressure to determine the constitution immediately, all members finally accepted the clause on regional government, as drafted, to be Article 18 of the Constitution. This article stated that,¹⁴

the division of territory into larger or smaller units and the forms of their administration shall be laid down by law with due regard to and due observance of the principle of consultation in the governmental system of the state and the traditional rights in the special areas (the 1945 Constitution).

In the Elucidation of the 1945 Constitution, it was further stated that,

Par 1. Because Indonesia is an *eenheidsstaat* (a unitary state), regions within its boundary cannot be a *staat* (a state). Indonesian territory is divided into provinces and the province will be divided into several smaller regions. These regions can be autonomous or administrative regions. At every autonomous region, there will be a *badan perwakilan daerah* (regional representative body) because the government in the regions will be based on *permusyawaratan* (a democratic principle).

Par 2. Within Indonesian territory, there are approximately 250 *selfbesturende lanschappen* and *volkagemeenschappen* like *desa* in Java and Bali, *negeri* in Minangkabau, *doesoen* and *marga* in Palembang and so on. These regions have their traditional structure, and therefore can be considered as special regions. The Republic of Indonesia recognizes the position of those special regions and any regulation regarding those areas should regard *asal usul* (the historical background) of these regions.

Both Article 18 and its Elucidation tell little about the nature of central-regional relations. However, they suggest that a uniform system of local government for the whole of Indonesia might not be appropriate and that traditional right should be taken into account in the establishment of the autonomous units.

¹⁴ The English version of the 1945 Constitution is taken from Simorangkir, J.C.T, and Mang Ram Say, B., 1980. Around and about the Indonesian Constitution of 1945, Penerbit Djembatan, Jakarta.

Decentralization during the Revolution

Two days after the proclamation of Indonesian independence, the PPKI issued its decision regarding the temporary structure of the regional government in Indonesia. In this decision it was stated that the Indonesian territory was to be divided into eight provinces: West Java; Central Java; East Java; Sumatra; Borneo; Celebes and Maluku and the Lesser Sunda. Each province would be further divided into regencies. The head of province, the Governor, together with the Regional National Committee (*Komite Nasional Daerah* or KND), was given the responsibility to take over management of each region's affairs. The KND was to be responsible to the Central National Indonesian Committee (KNIP) which was located in Jakarta.

On August 23, the PPKI issued another decision on the establishment of the KNIP and the KND. The Central National Committee, which consisted of 150 representatives from the civil service, Moslem communities, nationalist groups and commercial groups, was formed on August 29. The formation of the KNIP was gradually followed by the establishment of KNDs in the provinces, most of the residencies, municipalities and even in some villages in Java (The Liang Gie, 1993a:45).

The euphoria of independence, however, lasted only a few days because Allied Forces began to arrive to accept the Japanese surrender. In September, Australian troops occupied the major cities of East Indonesia. With them came Dutch troops and administrators. Demonstrations were put down and some republican officials were arrested. In the meantime, British troops moved into Java and Sumatra. As Allied troops appeared, tensions mounted in Java and Sumatra. Street fights occurred between young Republicans on the one hand, and former Dutch prisoners, Dutch colonial troops, Chinese, Indo-Europeans and Japanese on the other (Ricklefs, 1993: 216).

In November 1945, the system of government was transformed into a parliamentary system through a Vice Presidential decision called *Makloemat* No. X.¹⁵ The KNIP was now given legislative power, to be carried out through a Working Committee (*Badan Pekerja*) of the KNIP. The cabinet was made responsible to the KNIP instead of the president (Gie, 1993a:46; Ricklefs, 1993:218). This decision was totally in disagreement with the 1945 Constitution, which provided for a presidential system. However, the 1945 Constitution remained in force, if only in theory.

Following the issuance of *Makloemat* No. X, a new cabinet was formed and Sjahrir became the first Prime Minister as well as Minister of Foreign Affairs and the Interior (Ricklefs, 1993: 218).¹⁶ One of Sjahrir's main agendas was to establish a system of regional government based on people's sovereignty (Gie, 1968c:9). For this purpose, the first law, Law No. 1 of 1945 concerning the setting up of regional councils, was introduced a few days later. This law had actually been drafted by the working committee of KNIP right after its formation and sent to the president for approval in October 1945.

The preoccupation with the question of decentralization after the Japanese surrender, according to Walker III, was based on two important objectives of the Indonesian nationalist leadership. Firstly, the creation of autonomous sub-national levels of government would weaken the traditional powers of the pangreh (later *pamong*) *pradja*, the centralized civil service inherited from the colonial period.¹⁷ Secondly, the creation of representative

¹⁵ In the 1945 constitutional debate, Hatta strongly argued for a parliamentary system. When Sjahrir took over the government in November 1945, Hatta issued *Maklumat* (decree) No. X, which significantly reduced the power of the president and greatly increased the power of the parliament.

¹⁶ Sjahrir was one of the prominent leaders of the Indonesian Association in the Netherlands. On his return to Java, he founded Pendidikan Nasional Indonesia (Indonesian Nationalist Education), which was also called PNI *Baru* (New PNI), in 1931. In 1934 Sjahrir was arrested and sent to Digul. When the Japanese came to Java, he refused to cooperate and led an underground movement for independence.

¹⁷ The provisional articles of the Constitution of 1945 allowed the continuation of existing official institutions and regulations until new ones in accordance with the constitution could be set up. This article provided for a continuation of the *pamong pradja*. According to Walker III (1967:134-135), the nationalists who framed the

institutions at various levels was considered to be the most direct method of democratizing political institutions and of encouraging an active modern political life (Walker III, 1967:134). On the other hand, Indonesian scholars, such as The Liang Gie and Solly Lubis, saw the introduction of Law No. 1/45 more as an effort to counter the Dutch accusation that the Republic was fascist and merely a Japanese creation. They both regarded the establishment of the regional councils as part of the effort to show to the world the democratic image of the Republic (Gie 1968a:15; Lubis 1975:51).

Law No.1 of 1945

Law No. 1 on regional government, which was passed on 23 November 1945, was very brief and general. This law established three types of autonomous regions: the residency (*keresidenan*); the regency (*kabupaten*); and the municipality (*kotapraja*). The autonomy of the provinces was abolished and the provinces were turned into administrative regions. An assembly called People's Regional Representative Committees (*Badan Perwakilan Rakyat Daerah* or BPRD) was to be established in every residency, regency, municipality and wherever else the Minister of Interior designated (Articles 1, Law No.1 of 1945). This assembly, together with an executive board (*Badan Eksekutif*), consisting of representatives from the BPRD and the regional head, was responsible for the management of their region. Both bodies were to be chaired by the regional head who was appointed by the central government (Article 2, Law No.1 of 1945). But the relationship between BPRD, the regional head and the executive board was not clearly defined in this law.

constitution were not inclined to hand the country back to this corps whose training and experience had taken place largely under the highly centralized administrative systems of the Dutch and Japanese. However, there seemed to be no alternative because the assemblies set up by the Dutch and Japanese lacked experience to handle administrative function. The only officials with experience were the members of the *pamong pradjja*. The term *pangreh pradjja* was changed to *pamong pradjja* because *pamong* has a more positive meaning.

In Law No. 1 of 1945, responsibilities were divided between the centre and the regions based on hierarchical limitations. The regions were allowed to deal with any matter not specifically pre-empted by the centre or by a higher local government (Gie, 1993a:60). But powers given to the regions were of two categories: the power of autonomy and the power of *medebewind*. The former referred to the right to carry out “household affairs” which were fully surrendered to regional governments. The latter referred to the obligation to execute tasks that were incompletely surrendered. That is, where implementation was turned over to regional government, but the right of initiative was retained by the central government.¹⁸

Article 2 of Law No.1 of 1945 provided that the existing KND be transformed into BPRD. The abolition of the KNDs, according to the Minister of Home Affairs, was due to the problem of dualism. KNDs were formed when sovereignty over Indonesia was formally still in the hands of the Japanese and the *pangreh pradja* who were appointed as the members of KND at that time were still part of the Japanese Government. As sovereignty of Indonesia was now in the hands of the Republic, legislative power should be withdrawn from KND and a new assembly established to assume that power. The membership of this new assembly should represent all groups in the society, including the *pamong pradja* who now belonged to the Republic. Thus, the transformation of KND into BPRD was expected to strengthen the position of the regional councils (Gie, 1968:49; Lubis, 1975:53).

Following the law, BPRDs were set up at various levels throughout Java and Madura. In Sumatra, based on the Governor's Decree (*Makloemat*) No. 8 of 1946, the councils were instituted not only at residency and municipal levels, but also at the provincial

¹⁸ According to Prof. Bhenyamin Hussain, the scope of *medebewind* is more limited compared to the scope of *zelfbestuur*. Under *medebewind*, the regions are given the obligation only to implement central government's tasks delegated to them according to central government's directions. Under *zelfbestuur*, the regions had the obligation to translate central legislation into local legislation (interview, April, 1997)

level (Gie, 1993a:85). This decree seemed to contradict Law No. 1 of 1945 because the establishment of a provincial council made the province of Sumatra an autonomous region. However, the formation of BPRDs at *kabupaten* (regency) level did not begin until 1948 because *kabupaten* did not exist outside Java at that time. In other islands, BPRDs were formed mainly on the initiative of the officials in charge of the region. For the most part, members were again appointed from *pamong pradja* (formerly called *pangreh pradja*) officers, who had become part of the republican government, and had the approval of prominent nationalists in the area. But in some areas, such as in the residencies of Kediri and Bodjonegoro in East Java, local elections took place. These were either suggested by the resident or initiated by various local groups (Walker III, 1967: 137).

The system of regional government introduced in Law No.1 of 1945 was strongly influenced by the system imposed under the colonial law. As in colonial law, under Law No. 1 of 1945 regional autonomy was restricted to "household affairs". What was meant by "household affairs" was left unexplained in the law. Therefore, it could be expected there would not be many changes in the scope of autonomy from the colonial law.

The position of regional head also remained as it was under Dutch colonial law. The regional head was expected to exercise a dual role: as the head of regional government, he or she chaired the BPRD and the executive council; as the representative of the central government in the region, he or she continued to coordinate and supervise the execution of central tasks in the region. Since regional heads were appointed by the central government, it was not surprising that some governors put more priority on the implementation of central tasks which were delegated to the regions (Gie, 1993a: 61). The position of the executive board was also the same as that of the college under the Dutch administration.

The exigencies of the revolutionary situation, particularly in Java during 1946 to 1949, made any further experiments in decentralization and democratization of local government impossible except in the domains of the traditional rulers in Yogyakarta, Sultan Hamengkubuwono and the Paku Alam. Attempts to conduct elections and to form local governments had to be abandoned because of the pressures of resistance and guerrilla warfare against the Dutch troops. However, the structure of local government as outlined by the Sultan's government was important because it had a strong influence on the basic law of local government, passed by the Republic of Indonesia in 1948 when its capital was temporarily moved to Yogyakarta (Walker III, 1967: 138).

Decentralization after Independence

Despite the revolutionary situation, decentralization remained on the agenda of the second and third Sjahrir cabinets.¹⁹ But Law No.1 of 1945 was seen as inadequate to bring a democratic system of regional government to the country. Therefore, another law to replace it was drafted by the Department of Home Affairs based on the experience of the Sultanate in Yogyakarta (Gie, 1993a: 97). This new law, Law No. 22 of 1948 on regional administration, was proclaimed from Yogyakarta on 10 July 1948. It was passed with minimal debate by the 47-member Working Committee of the KNIP (Walker III 1967: 145). This law outlined the formation and organization of regional governments, functions to be performed by regional governments, and the principle of selection for the position of the regional head (*kepala daerah*).

¹⁹ In his first cabinet (14 November 1945-12 March 1946), Sjahrir called for the establishment of regional government based on people's sovereignty, and in his second cabinet (12 March - 2 October 1946) he launched another program called the Establishment of a System of Democratic Regional Government (*Menyusun Pemerintah Daerah yang Demokratis*) (Lubis 1975:58). In his third cabinet (2 October 1946-3 July 1947) this programme was retained.

Law No. 22 was well received by the regions. But the innovation proposed by the law was not implemented for a considerable time due to the internal problem caused by the Madiun affair and a series of negotiations with the Netherlands government.²⁰ In December 1949, the United States of Indonesia (*Republik Indonesia Serikat*, RIS) was established, and the Dutch formally transferred sovereignty of Indonesia to the RIS government. Under the RIS Constitution, Law No.22 of 1948 remained valid for the formation of regional governments in Java, Sumatra and Kalimantan. But the implementation of the law effectively began only after the establishment of the new Unitary Republic in 1950.

Law No.22 of 1948

Law No.22 of 1948 established three tiers of “self-governing regions” (*daerah swatantra*): the province, the *kabupaten* and the *desa* or its equivalent.²¹ Large towns were to be equivalent in status to a *kabupaten*, and small towns were to be equivalent to a *desa*. In addition to these “ordinary” self-governing regions, there was provision for the formation of “special regions” (*daerah istimewa*), composed of units or groups of units, which, because of their character or historical traditions, did not lend themselves to ordinary classification. The so-called “self-governing states” (*swapradja*), which had been brought under Dutch authority by means of the short declaration or the long contract and which had been subject to a form of indirect rule in colonial days were expected to fit into this category

²⁰ On September 18, 1948, the supporters of the Indonesian Communist Party (PKI) took over Madiun, one of the big cities in East Java, killed some pro-government officers and announced over the radio the formation of a National Front government. Musso, Amir and other PKI leaders hastened to Madiun to take charge of this government. On the next day, about 200 PKI and other leftist leaders remaining in Yogyakarta were arrested and Sukarno denounced the Madiun rebels over the radio and called upon Indonesians to rally to himself and Hatta rather than Musso. In October, Musso, one of the communist leaders and in December, Amir, another leader, and about 300 pro-PKI soldiers were arrested (Ricklefs 1993:229).

²¹ The remaining administrative divisions-*residency*, *kewedanaan*, and *kecamatan*-were not mentioned in the Law, though its explanatory appendix appeared to look forward to the gradual disappearance of these units. In practice they were retained for the time being.

(Legge, 1961:28-29). A special region, according to its size and level of development, might be equivalent in status to either a province, a *kabupaten*, or a *desa* (see Article 1 (2)).

As established in Law No. 1 of 1945, in Law No.22 of 1948 power to be exercised by the *swatanta* regions was classified into two categories: autonomy and *medebewind*. Autonomy referred to the right to deal with “household affairs”, or functions which were fully surrendered in principle and in terms of implementation to regional government, while *medebewind* was the obligation to assist in the execution of central government tasks delegated to them by the law, or tasks belonging to and delegated by a higher local government level (Article 1 and 23(1)). In the case of *medebewind*, implementation was turned over to local government, although the right of initiative was retained by the central government. The powers of autonomy were not enumerated in detail in Law No. 22, but it was provided that they were to be elaborated subsequently in further legislation required to establish each region as a region of local government under the basic law (article 23 (2)). For example, the powers of self-government that the province of West Java could expect to receive were determined in Law No. 11/1950 on the establishment of the province of West Java. But the actual transfer of powers to West Java province was not made by parliamentary decision, but rather by a government decision (*Peraturan Pemerintah*) No. 30 of 1951. The powers, once assigned, could also be withdrawn by a similar government decision (for detailed discussion on the process, see Walker III, 1967:148).

The institutions through which regional self-government would be conducted were to be similar for all three levels. At each level, two councils were to be established: a representative council (*Dewan Perwakilan Rakyat Daerah*, usually abbreviated DPRD), to be elected in a manner to be determined by law (article 3(4)), and an executive council (*Dewan Pemerintah Daerah*, DPD), to be elected by and from the members of the DPRD

according to the method of proportional representation (Article 13 (1)).²² The DPRD was entrusted with legislative powers in the fields falling within the competence of the region. (Legge, 1961:30). The chairman of the DPRD was to be elected from its members. Legislation of local government was not to conflict with legislation of the central parliament or higher levels of local government (Article 28). The DPD was charged with day-to-day conduct of government, executing decisions of the DPRD, administering the various fields of activity belonging to the region, performing such other functions as were specifically conferred in the Law.²³ This body was to be chaired by the regional head. The members of the DPD collectively and individually were to be responsible to the DPRD (article 34). This principle followed the principle of the parliamentary system, which was being practiced at that time at the central level.

Law 22 introduced the principle of consultation in the appointment of the regional head, something that was not laid down in the previous laws. The regional head was to be appointed by the central government from a list of candidates submitted by the DPRD concerned. In the case of a province, the appointment was to be made by the president from a list of candidates nominated by the DPRD of the province. The head of a *kabupaten* or a large city was to be appointed by the Minister of Home Affairs from a similar list proposed by the DPRD concerned. The head of a village or a small town was to be appointed in a similar fashion by the Head of the province in which it was situated. (article 18 (1, 2, 3)). In the case of a special region different arrangements were to be made. Here the *kepala daerah*

²² DPD was a collegial body, designed to avoid the possibility of a single party obtaining exclusive control over it.

²³ Certain powers of supervision of the conduct of local governments at a lower level and of the budgets of lower local governments were given to the DPDs also. Powers in *medebewind* might be surrendered to either a DPD or a DPRD (Article 24). If such powers were surrendered to the DPD, it would not be responsible to the DPRD for its handling of that function.

(regional head) was to be appointed by the president from the traditional ruling family of the area (if it still retained power), with the proviso that the appointee must be suitable in terms of his ability, justice, and loyalty. Normally the traditional ruler would become the *kepala daerah* (Legge, 1961:31). The head of the region could be discharged by the appropriate authority at the request of the DPRD concerned, though it was not obligatory for the authority to accede to such a request (see explanatory appendix, par. 24).²⁴

Like in Law No.1 of 1945, the head of the region in Law No. 22 of 1948 was also expected to exercise a dual function. As chairman of the DPD he was to be the head of the local government with some responsibility to the DPRD. He was also charged with the supervisory powers over the DPD (Article 36). As head of the region the *kepala daerah* was to be the representative of the central government in the area, supervising the execution of governmental tasks which did not fall within the competence of the local government and exercising the same type of coordinating function as had formerly fallen to the appropriate officer of the *pamong pradja*, or central administrative service, such as the Governor in the case of a province, the *bupati* in the case of a *kabupaten*, and the mayor in the case of a town. As Legge pointed out,

The concept of the dual role had its theoretical difficulties. The fact that he was an organ of the local government, bearing a responsibility together with his colleagues on the DPD to the representative body on the one hand and having responsibility to the higher levels of administration on the other, left open the possibility of a conflict of interest between two capacities- a conflict which was particularly likely to occur in view of his specific power to delay measures of the local councils which appeared to him to be contrary to the general interest or to run counter to the measures of higher government. (Legge, 1961:38).

Obviously the position of the *kepala daerah*, as provided in the law, called for great qualities of skill and tact if a clash of interest was to be avoided (Legge, 1961:39).

²⁴ The power of the central government to remove such an officer on its own initiative without any request from the DPRD was not specifically provided, but it appeared to be assumed by officers of the Ministry of Home Affairs.

Despite the fact that considerable power was transferred to the regions, the central government was still anxious to retain a measure of supervision over the activities of regional authorities, even in those fields specifically surrendered to the regions (Legge, 1961:32). The first feature of the control system was supervision exercised by the regional head on behalf of the central government. According to Article 28 (6), the regional head's signature was necessary for ordinances of the legislative council. He or she was also empowered to delay the operation of decisions of either council if they appeared to conflict with higher legislation or to run counter to the general interest. In the event of such a delaying veto, the matter was to be reported within seven days to the president in the case of provinces and to the DPD of the next highest level in case of lower local governments. If no contrary decision was made by those authorities within three months, the original decision was to come into effect (article 36 (1, 2, 3)). This method of control was called "preventive supervision" (Legge, 1961:32-33). In addition, the DPD was also empowered to repeal decisions already made by the DPD or DPRD of the level below them, if they conflicted with the general interest or with higher legislation. This type of supervision was called "repressive supervision" (article 42).

The second feature of the control system was to be found in the fact that the three levels of autonomy, like the six levels of administration, were hierarchically arranged. The provinces, while concerned with the field of activity specifically assigned to them, possessed a supervisory power over *kabupatens* and large municipalities within their boundaries, and so on down the scale. Indeed, it was through this hierarchy of authority that the preventive supervision was made effective, since the imposition of the delaying veto automatically brought the whole question before a higher level (Legge, 1961:33). In addition, Article 25 of Law No. 22 also provided opportunity for the central government to

intervene directly in the regions when, in the opinion of the centre, a regional government was neglecting its task. In these circumstances a central instruction could be issued in the form of a government regulation requiring the regional government to act in a certain manner.

The implementation of decentralization policy in western Indonesia during the 1950s did not really correspond with the plan set out in Law No. 22 of 1948. One deviation was related to the appointment of the regional head. Disputes over the conduct of local elections had caused the formation of regional councils and the selection of regional heads by the regional councils to be delayed. This situation provided the opportunity for the central government to use the escape clause of Law 22 of 1948, which enabled the centre to appoint regional heads until the election could be held. The existing senior *pamong pradja* official in the region was then named *kepala daerah*: thus the governor became *kepala daerah* for the province, the *bupati*, the *kepala daerah* for regencies; and *walikota* the *kepala daerah* for municipalities. The appointments of *pamong pradja* officials as *kepala daerah* reflected the continuation of the central government's control over the region (Walker III 1967: 151).

Another deviation from the original plan was related to the implementation of local elections. Law No. 22 stipulated that regional councils be elected, but provided, with details of the electoral system to be elaborated in separate legislation (Article 30 (4)). In 1950 an electoral act, Law No.7 of 1950, was passed, providing for the indirect election of DPRD's at the higher levels. Electoral colleges for provincial, kabupaten and municipal elections were to be composed of electors chosen by *desas* or their equivalent (Articles 8, 57, 69). Law No.7 of 1950, however, could not be implemented, except in Yogyakarta when in 1951 an election was held for the DPRD of the special region of Yogyakarta. But elsewhere the

central government argued that problems of inadequate administration in the regions and the difficulty of securing uniformity in the surrender of powers to areas with widely differing experience and capacity made it impossible to establish fully autonomous bodies immediately. The government used the escape clause in Law No. 22 which allowed for the appointment of "temporary councils" (DPRD *sementara*) in a manner to be determined by government regulation. In 1950, Government Regulation No.39 was issued which provided a legal basis for the appointment of representatives on the basis of established party and other organizations. Political parties and groups such as labour unions or women's organizations were entitled to representation on *kabupaten* and municipal councils if they possessed a central executive and were established in at least three *kabupatens* and municipalities in a province and with *kecamatan* branches in those *kabupatens* and municipalities. Members of the provincial DPRDs were to be chosen by the DPRDs of *kabupatens* and municipalities. However, this regulation was open to abuse. A party could increase its representation on councils by forming sub-organizations for the specific purpose of claiming extra seats. In response to this situation, Hadikusumo from the PNI called for the disallowance of the regulation and the freezing of councils already established. Parliament agreed with Hadikusumo's motion, and no further councils were established for the time being, though already formed councils were allowed to continue in operation until further arrangements were made (Legge, 1961:46-48).

The third deviation was regarding the establishment of autonomous units. The law provided the establishment of three-tiered autonomous regions. But the third level autonomous regions were never established, except in some small towns in Java. The third level autonomous units at *desa* or equivalent were regarded as worthless. Since the colonial time, the *desa* (in Java), *negeri* (in western Sumatra) and *marga* (in southern Sumatra) had

already elected their headmen, possessed their own officials (*pamong desa*), and their village assemblies, which functioned according to local customs. Another reason was because a *desa* or its equivalent was seen as too small in terms of both area and population to serve effectively as the basic unit of local government (Legge, 1961:46).

As Walker III (1967:154) concluded, "Except for providing opportunity for many more individuals to hold public office, the law did not basically change the government structure from what had existed before the war." He felt the law failed to introduce a more democratic system of regional government because decentralization was implemented in only a half-hearted manner. He believed this half-hearted manner was "a reflection not so much of the shortcomings of the law as in the reluctance of the central government to give the law any real meaning" (1967:167). The law, according to Walker III, required that decentralization be accomplished in two steps: by devolving significant powers of local government to the subordinate units; and by gradually curtailing the power of the *pamong pradja*, the territorial administrative corps of the Ministry of Interior. He saw the obstacles as both political and logistical. Firstly, the central government kept emphasizing the need for creating a strong sense of national unity in order to rationalize its hesitancy to devolve powers to local levels. Secondly, the political elite, the primary proponents of decentralization and of the democratization of local government, was split over other political issues and indecisive about the methods of implementation. Moreover, they also felt insecure in their political strength at the local levels and preferred to await better 'grass-roots' organization before putting their voting strength to the test. Therefore, until sure of their support in the regions, the parties were unwilling to push meaningful implementation of the laws. Thirdly, the administrative elite in the field and in the Ministry of Interior in

Jakarta found that the laws would abolish their jobs. Not surprisingly, the corps did not seem in a hurry to devolve its powers (Walker III, 1967: 167-168).

The Law itself did not set a specific timetable for the devolution of power. For whatever reasons, the centre could deliberately delay the transfer of many duties to the regions. Moreover, local governments were not ready to assume their responsibility due to lacked trained staff and budget at local level. Most of educated people were absorbed by the central government agencies, and Law No. 32 of /1956 on the fiscal balance did not help much in improving regional revenues.

Law No. 44 of 1950

On December 1949, the Netherlands formally transferred sovereignty to the United States of Indonesia (RIS), a federal state composed of the Republic of Indonesia and several Dutch-created states.²⁵ Under the RIS Constitution, Law No. 22 of 1948 remained in force for regional government in Java, Sumatra and Kalimantan. For the Eastern Indonesia State, a similar law, Law No. 44 of 1950, was issued by the government of the state. This law outlined the system of regional government within the administrative provinces of Sulawesi (Celebes), Maluku (Moluccas) and Nusa Tenggara (Lesser Sundas) into which the East Indonesia State was now to be divided.

This law was passed after the remaining states of the United States had agreed on the formation of the unitary republic but were waiting for the acceptance of the Provisional Constitution (Walker III, 1967:163). Therefore, the main principles of Law No. 44 of 1950

²⁵ The idea of a federal state was first introduced by the Dutch at a conference in Malino (South Sulawesi), in July 1946. More than 30 representatives from Kalimantan and Easter Islands supported the idea. In December 1956, the State of East Indonesia was created. In May 1947, the state of West Kalimantan was established. In the meeting at Linggarjati (West Java), the Dutch recognized the Republic as de facto authority in Java, Madura and Sumatra, and both sides agreed to cooperate in the creation of a federal United States of Indonesia, in which the Republic would be one of the states.

resembled those of Law No. 22 of 1948. The same hierarchy of autonomous levels was proposed, with higher levels exercising some control over the authority of the next lowest level. But this region had a different administrative history. Before the creation of the Negara Indonesia Timur (the Eastern Indonesia State), this region had been divided into many self-governing states. Many of these states were too small to be effective self-governing units. Therefore, during the Denpasar conference in 1946, these states were regrouped into 13 *daerah*, the subordinate units of the *negara*, which possessed a considerable autonomy. In most cases, the *daerah* were made up of federations of *swapradja* (autonomous units under indirect rule) or of *neo-swapradja* (autonomous units under direct rule). In Law No. 44 of 1950, the *daerah* units were to be used as the second level of government, and the *swapradja* and *neo-swapradja* units were to be made as the third level of government (Legge, 1961:41; Walker III, 1967:157-163).

Law No.44 of 1950 also followed Law No.22 of 1948 in proposing provisions for the appointment of a regional head. An important difference between the two laws, however, was that Law 44 had no escape clause, which enabled the central government to make direct appointments to that office during a transitional period. As a consequence, in each case the regional head was chosen by the centre from a list of nominees submitted by the DPRD, except in a special region where a member of the ruling house was to be appointed. A possible explanation for the difference, according to Walker III (1967:164), was that while the drafters wished to ensure the election of a republican, they also wished to prevent the appointment of regional head from another region.

Law No. 44 of 1950 also differed from Law No. 22 of 1948 in defining what powers would be conferred on regional authorities. In Law No. 22, powers were to be surrendered to the local government by the central government. In Law No. 48, a reverse

procedure was adopted. The powers assumed by the central government were defined: those undefined were left to the local government until such time as this distribution was revised by the centre. "The net result was to leave local government with a greater range of powers, at least on paper, than was the case in the rest of the republic "(Legge, 1961:42).

In 1952, the territory of the Eastern Indonesia State was divided into three provinces. But provincial governments with elected assemblies had not yet been introduced into the islands of East Indonesia. Following the formation of the provinces, the *daerah* were again regrouped so that their size would be more or less equivalent to kabupaten in Java. The *swapradja* and *neo-swapradja* were abolished to allow the formation of more equal-sized *daerah bawahan* (units under *daerah*). The municipalities were given the status of second level. To avoid too sudden a change in the governmental structure, the process of administrative integration in Eastern Indonesia was slowly carried out.

Decentralization under the Parliamentary System²⁶

Since its introduction, Law No.22 of 1948 had been criticized by central and local politicians for its escape clauses and the dualism in the position of regional head. The way in which the law was implemented a few years later caused even more criticism. In 1951, Dr. Sukiman, a leader of the Muslim Masyumi party who later became prime minister, already knew that a program of decentralization could not be carried out until Law No. 22 was revised (Maryanov, 1957:65). In addition, the formation of the Unitary Republic also provided a strong reason for the drafting of a new, all-embracing law to replace Law No. 22 and Law No. 44 (Legge, 1961:43). When the first cabinet under the prime ministership of

²⁶ During the Parliamentary Democratic Period (1950 - 1959), there were regular changes in government due to fragmented party system. Each cabinet consisted of a multi-party coalition. Some cabinets only survived for a few months.

the PNI leader, Ali Sastroamidjojo, took office in 1953, all attempts to carry out Law No. 22 were finally abandoned (Walker III, 1967:189).

In 1954, Dr. Hazairin, the Minister of Home Affairs under the first Ali Sastroamidjojo cabinet, proposed to the parliament a draft bill designed to replace both Laws No. 22 and 44. This bill was particularly aimed at facilitating the setting up of the lowest-level autonomous regions. These units were proposed to be called *sadat*, and these *sadat* were to be formed based on the *adat* structure of the communities. These units were, of course, not expected to be uniform throughout the country. According to Hazairin, this was the most realistic approach to implementing local government on this lower level (Walker III, 1967:190). Furthermore, the bill proposed that the regional head be appointed from central government officials by the President for the province, by the Minister of Home Affairs for the kabupaten and by the governor for the *sadat*. The bill did not contain provision for nomination of candidates by the DPRD. Hazairin's draft was rejected by the parliament. Dr. Hazairin, who represented the small Greater Indonesia Union party then resigned and was replaced by Sunarjo Dipodiningrat of the PNI.

In 1955 Sunarjo proposed a draft based on suggestions made by members of the parliament. In this draft, Sunarjo introduced the concept of "real autonomy" to replace the previous concept of "autonomy as broadly as possible". In his concept, the degree of regional autonomy would be defined according to their financial and administrative capacity. Sunarjo also proposed two levels of autonomous regions. In some cases a third level could be formed. The regional head in this draft was to be elected directly by the people and would chair both the DPRD and the DPD.

No decision had been made when the Ali Cabinet was replaced by its successor, the Burhanudin Cabinet, in August 1955. Burhanudin was from the Masyumi party. Under

Burhanudin, the PNI's Sunarjo, who was reappointed as the Minister of Home Affairs, continued to prepare his draft but it was held in abeyance until the new cabinet as a result of the 1955 general elections was formed (Walker III, 1967:190-191; Gie, 1993b: 112-113).

In 1956, the new government based on the 1955 general elections, the Ali-Roem-Idham Cabinet (a coalition of three big parties: PNI-Masjumi-NU), was formed. In response to increasing pressure to further democratize regional government and create a basis for uniform local government throughout the country, this government immediately introduced its decentralization bill in the parliament. This bill proposed that the regional head (*kepala daerah*) be popularly elected and therefore; not responsible to the central government. For the purposes of general supervision, a Government Commissioner (*Komisi Pemerintah*) was proposed to be established, acting as the central government's agent in local government, and coordinating activities of local *resorts* of different levels. This idea met with strong parliamentary opposition for fear that such commissioners would be "the spies of the central government", or "take on the same position as the assistant residents of the colonial period" (Sunaryo Dipodiningrat, in Walker III 1967:191). After prolonged negotiations between the party leaders and Sunarjo, who still served as the Minister of Home Affairs, a compromise agreement was finally reached. The victory seemed to go to the political parties who fought for greater independence at regional levels. The bill was accepted in its final form in December and promulgated in the following January as Law No. 1 of 1957 (Legge, 1961:52).

Law No. 1 of 1957

Law No.1 of 1957 was the only decentralization law before 1999 to offer real autonomy to the regions. The introduction of such a democratic law became possible

following the transformation of the federation into the unitary republic in 1950. Fear that the regions' short experience with broader autonomy under the federal system might cause problems for the formation of the unitary republic had forced the new republican government to give more concessions to the regions. For this reason, the concept of "autonomy as broadly as possible" introduced in the RIS Constitution was maintained in the provisional Constitution of 1950, despite the fact that such concept was intended for a federal system.²⁷ In Article 131 of the provisional constitution, which was actually taken over without any modification from Article 132 of the RIS Constitution, it was stated that,

The division of Indonesia into large and small regions with the right to govern their own affairs, together with the form of government for these regions, shall be established by law, keeping in mind the basis of consultation and representation as in the system of government of the State.

These divisions shall be given the greatest possible measure of autonomy to manage their own affairs (RIS Constitution).

The spirit of Article 131 made every cabinet formed following the formation of the unitary state include statements of intention to proceed with decentralization in its programs (Gie, 1993b:111-116). This mood provided an opportunity for political parties to assert their demand for greater regional autonomy. It was under such circumstances that a related law, Law No.32 of 1956 on the Central and Regional Fiscal Balance, which gave a better share of revenue to the regions, was also introduced a few months earlier.

Like Law No. 22 of 1948, Law No.1 of 1957 also proposed three levels of autonomous regions, with a Representative Council (*Dewan Perwakilan Daerah* or DPRD) and Executive Council (*Dewan Pemerintah Daerah* or DPD) at each level. But in many respects, Law No.1 of 1957 differed from the previous law. This law greatly increased the

²⁷ Despite the fact that the Provisional Constitution of 1950 established a unitary state, many of articles in this constitution were taken over as they were from the RIS Constitution.

power of elected legislative councils in the provinces, regencies and municipalities. DPRD decisions no longer needed ratification by the regional head, although legislation of the regional government was still not to conflict with legislation of the central parliament of any higher level of regional government. But the DPRD was now given the power to challenge the central parliament or higher levels of regional government if it considered their decisions as against the interests of its region and people living in its jurisdiction (Gie,1993a:116). Moreover, the law gave more powers and responsibilities to the regions. It proposed that matters within the purview of the central government would include foreign affairs, defence, and currency. As Maryanov pointed out, this implies that the residual responsibilities would be left to the regions (1958, 56-57).

Law No. 1 of 1957 was also intended to remove the dual status of the regional head. He or she was no longer the chief of the executive as under the previous law, but merely chaired the DPD. As chairman of the DPD, the regional head was now to be elected by the DPRD; the central government had only the power to ratify the results. The regional head was now made responsible to and could be discharged by the DPRD. Under this law, the power of the regional head was significantly reduced.

Changes in the character of the regional head brought some changes in the way central supervision would be implemented. Regional government was still to form a pyramid with higher levels exercising some control over the lower, both preventive and repressive. But those preventive and repressive powers were now given to the next higher executive council, or to the Minister in case of the first-level regions (Article 64). Nevertheless, the Ministry of Home Affairs could still delay or veto any decisions of the DPRD of the *kabupaten* or of the third-level units if the DPD of the immediately higher level failed to exercise its supervisory responsibility (Article 65).

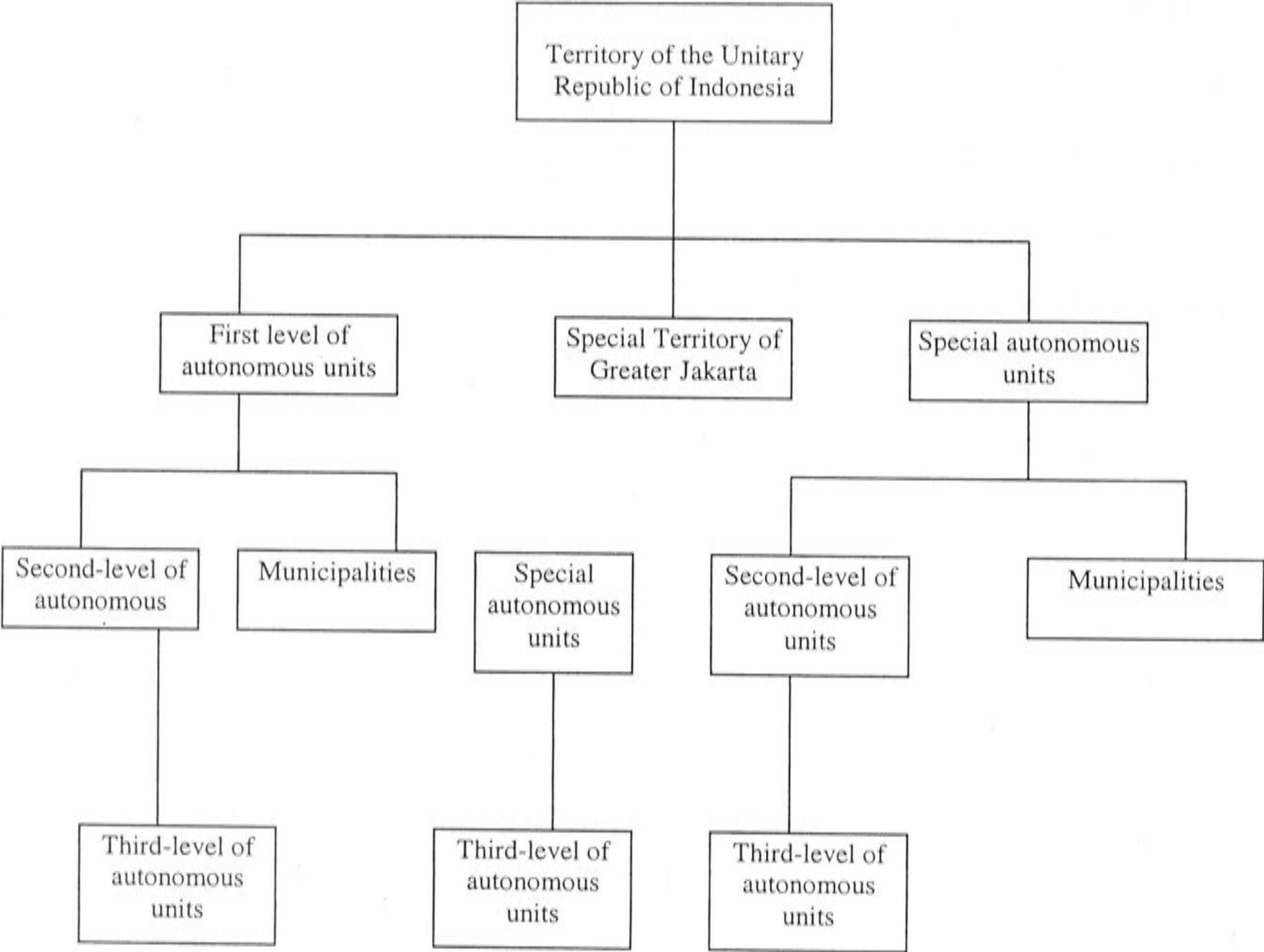
Law No.1 of 1957 also provided a stipulation for gradual elimination of the *pamong pradja* corps from the regions. Following the law, a ministerial instruction was issued on December 5, 1957 to transfer the power of the *pamong pradja* to the local authorities. In most regions, the bupatis were then removed from their *kabupatens* to the offices of the Residents. But in East Java and Yogyakarta, this policy was strongly opposed by the association of *pamong pradja* (*Serikat Sekerdja Kementarian Dalam Negeri* or SSKDN). Further conflict between the regions and the SSKDN, however, could be avoided through the intervention of the Ministry of Home Affairs (Legge, 1961:126-127).

Following the law, elections were held in Java and Madura in early 1957 and in South Sumatra and Kepulauan Riau in late 1957, and in four provinces in Borneo between February to October 1958. Right after the elections, the DPRD and DPD were formed. Elections, however, could not be held in North and Central Sumatra because both were about to be divided and because the central government experienced difficulties in commanding the loyalty of certain dissident groups in those areas. In Eastern Indonesia, the elections had also to wait until the process of restructuring the administrative division of these regions was completed. Where elections were not held, the previously established DPRD-*Peralihan* (Transitional) remained in office (Walker III 1967:199). The division of Central Sumatra into the provinces of West Sumatra, Jambi and Riau was finally made formal in 1958. In addition, three new provinces were also established in the province of Nusa Tenggara: Bali, West Nusa Tenggara and East Nusa Tenggara. A number of new *kabupatens* were also formed in these newly established provinces.

Between 1957 to 1959, several government regulations were issued for the purpose of transferring more responsibilities from the central ministries to the first-level regional governments. However, the process of transferring those responsibilities was not as smooth

as expected. One problem was the slow process of preparing local legislation necessary for the regions to take up these responsibilities. Another problem was due to the unwillingness of the central ministries to give the whole set of those activities to the regions. For example, responsibility for the management of land transportation was given to the first-level government, but authority to issue permits for the operation of trucks or buses were retained by the central ministry. Such arrangements enabled the central ministry to retain a degree of control over responsibilities, which were now under the jurisdiction of the regions. To find the solution to these problems, an interdepartmental committee was established in 1958 (Gie, 1993b: 142-163).

Figure 3.2. The Structure of Regional Government according to Law No. 1 of 1957.



Source: Gie (1993b:120)

Meanwhile, some initiatives were also made to implement Law No.32 of 1956 on fiscal balance. Previously, regional governments were highly dependent on central grants to finance their activities. Most taxes were collected by the central government and then redistributed to the regions based on population. The way the centre allocated its revenue had become a source of conflict between the centre and the regions. The basic Law No.32 of 1956 was introduced to settle this conflict. Under this law, regions were given some financial sources. Following the law, Government Regulation No. 3 of 1957 was introduced to allow the transfer of eight state taxes to the first and second levels. One year later, the central government also issued Government Regulation No. 12 of 1958, which allowed regional authorities to retain certain portions of state revenues originating from their regions. However, this regulation stipulated the maximum amount a region could collect from both local taxes and retention of central taxes could not exceed the total amount of subsidy previously received from the centre in 1957 (Article 6). But if the total amount collected was lower than the amount of subsidy it previously received, the gap would be filled by central grant (Article 7). These two articles were eventually seen by many as reflecting the centre's unwillingness to consequently implement Basic Law No. 32 of 1956. The controversies surrounding these two articles made the government abolish them a few months later (Gie 1993b:164).

In July 1959, implementation of Law No.1 of 1957 was abruptly terminated by the introduction of the Presidential Decree on the return to the 1945 Constitution. In September, the Presidential Edict No. 6 of 1959, which suspended those provisions of Law No. 1 of 1957 relating to the election and the powers of the DPD and to the election of the regional head, was issued. This edict provided for the return to the idea of appointed regional heads and also created a new type of executive council responsible to the regional head. This

edict, according to Legge (1961:60-61), represents 'not only a modification of detail, but a reversal of the central intention of Law No. 1'.

Decentralization under Guided Democracy

Shortly after the formation of the cabinet as a result of the 1955 general elections, rebellions broke out in some regions. In December 1956, in Central Sumatra, the former members of *Banteng* (Buffalo) Division of the Military during the revolutionary era formed the *Banteng* Council, which called for improvement in every field of government. This council successfully took over the government of Central Sumatra province from its governor and proclaimed its independence from the central government. In Medan, North Sumatra, Colonel Symbolic, the commander of Military Region I (North and Central Sumatra) also renounced the authority in Jakarta. A counter coup was successfully carried out few days later by Colonel Glinting, who was appointed by the centre to replace Colonel Symbolic. On 2 March 1957, Lieutenant-Colonel Samuel, the military commander of the East Indonesian Military Region (comprising Sulawesi, Maluku and Nusa Tenggara) assumed control of the administration of these provinces. A few days later, similar developments occurred in Kalimantan and South Sumatra (Gie, 1993b:202; Legge, 1961:202-203; Kahin, 1958:563).

Many believe the action taken by these regional military commanders was initially motivated by their dissatisfaction with the internal organization of the Army and its relationship with central government.²⁸ But the action was also supported by local politicians who had been unhappy with the implementation of Law 22 of 1948. The process

²⁸ See McVey, Ruth, 'The Post-Revolutionary Transformation of the Indonesian Army' (Part 1), Indonesia, No. 11 (April 1971) pp 131-176.

of establishing autonomous regions in the Outer Islands had been slow and their formation was inconsistent with local aspirations, which demanded that boundaries be defined on the basis of ethnic and cultural homogeneity. When the *Banteng* Council took control of the Central Sumatra province, its regional commander proclaimed the formation of the new provinces of Riau and Jambi. This proclamation forced the centre to compromise with these regions by formally dividing Central Sumatra into three provinces - West Sumatra, Jambi and Riau - and establishing the provinces of Central Kalimantan and Maluku in 1958 (Gie, 1993b:235). Regional frustration was further fuelled by the central appointment of Javanese *pamong pradja* officials to important posts in the regional government (Maryanov, 1958; Kuntjoro Jakti, 1981:136-137).

Allocation of the central budget was another source of conflict between the centre and the Outer islands. Government spending was seen as unfairly divided between Java and the rest of Indonesia because the central budget allocations were based on population. Foreign exchange, primarily earned by Sumatra, was allocated for imported goods needed by people in Java.²⁹ This situation caused exporting regions to demand some control over the foreign currency they earned. Moreover, to prevent foreign currency from flowing to Jakarta, they bartered their commodities illegally for imported goods and military equipment. This smuggling made the relationship between the centre and the regions even worse (Fryer, 1957:195;; Legge, 1961:235-236; Booth 1986).

Having been strongly criticized for their inability to deal with the regions, five Masjumi Party members of the Ali cabinet resigned. The cabinet itself was dissolved on 14 March 1957. The fall of the Ali Cabinet was immediately followed by Soekarno's

²⁹ A study by Thalib Ma'Azis published in "Mimbar Indonesia" in February 1957 showed that 71% of foreign exchange was earned by Sumatra and 16.7% by Java. On the other hand, 75.2% of foreign exchange was spent for Java while Sumatra only received 20.8%.

declaration on a “state of siege and war.” On 9 April 1957, Soekarno announced a new cabinet, despite opposition from some parties in the parliament, with the non-party technocrat, Djuanda as the prime minister. This non-party cabinet was called *Kabinet Karya* or Working Cabinet, and its immediate agenda was to restore internal stabilization (Gie, 1993b:203). On 12 July 1957, Soekarno announced the formation of the *Dewan Nasional* (National Advisory Council), which was charged with providing advice to the president. This council was composed of 42 representatives from the “functionalist” groups, the military, members of the cabinet, and those who were thought to understand the problems of the regions (Gie, 1993b:203).

Following the formation of the *Karya* Cabinet, a number of attempts were made to restore unity. The East Indonesian Military Region was reorganized to restore central control over the greater part of this area. A series of consultations with other military commanders was also organized to secure their loyalty to the centre. A national conference was held in Jakarta from 10 to 14 September and attended by about 200 civil and military leaders from the regions. This conference, however, failed to reconcile the differences between the centre and the regions. Another conference was then conducted in Jakarta from 25 November to 4 December 1957, during which it was agreed to normalize the region-region relationship based on existing laws and regulations. However, the agreement was never implemented. Exporting regions continued their illegal trade with foreign countries, causing central revenues to decline. At the same time, military commanders in Central Sumatra called for the resignation of the Working Cabinet. Military officers involved in this action were immediately dismissed by the central government, and their civilian counterparts were sent into exile. But on 15 February 1958, the formation of the Revolutionary Government of the Republic of Indonesia (PRRI) was proclaimed by

dissident military officers and politicians at Bukittinggi, West Sumatra. On 17 February, Lieutenant Colonel Somba, on behalf of the people of North Sulawesi, declared their independence from the central government in Jakarta and their support for the revolutionary republic in Bukittinggi.

In March 1958, the parliament renewed for the second time the “state of emergency”. Under the emergency act, the freedom of regional authorities was restricted. the *Penguasa Perang Pusat*, later renamed *Penguasa Perang Tinggi* (Central War Authority), and its regional branches *Penguasa Perang Daerah* or *Peperda* (Regional War Authority) were established. The administration of the regions was put under *Peperda*, which consisted of the regional head, the members of DPD, and the regional chief of police, with the regional army commander as the chairman. The rebellions were soon defeated, but the conflict between centre and regions was still to be resolved (Gie, 1993b:205). Soekarno, who blamed the parliamentary system imposed under the Provisional Constitution for causing the political instability, proposed to implement his idea of guided democracy. His idea was supported by army leaders (Kuntjoro Jakti, 1981:285). To pave the way for the implementation of his concept, Soekarno proposed a return to the 1945 Constitution. He argued that under the 1945 Constitution, political stability could be maintained because the cabinet could not be easily overthrown. The idea of returning to the 1945 Constitution was rejected by the Constituent Assembly, which had been working for two years but was still unable to produce a new constitution to replace the Provisional Constitution. In response, Soekarno abolished the assembly and issued a presidential decree on the return to the 1945

Constitution on 5 July, 1959 (see Adnan Buyung Nasution, 1993).³⁰ The return to the 1945 Constitution allowed the concentration of power in the hands of the president.

Following the decree, the first presidential cabinet, called *Kabinet Kerja* (also translated as Working Cabinet), was formed on 10 July. This was followed by the establishment of the Provisional People's Consultative Assembly (*Majelis Permusyawaratan Rakyat Sementara* or MPRS), a supreme body that was to elect the president and to determine the main direction of state policy (Presidential Edicts No.2 and 3 of 1959). In this, assembly the political parties became the minority because more than half of its seats were now occupied by representatives of regions and functional groups who were appointed by the president.³¹ In addition to the MPRS, the provisional Supreme Advisory Council (*Dewan Pertimbangan Agung Sementara* or DPAS) was also formed through Presidential Edict No. 3 of 1959 to replace the *Dewan Nasional*. The parliament (DPR) was later transformed into the provisional parliament (*Dewan Perwakilan Rakyat Gotong Royong* or DPRGR), the membership of which was now dominated by representatives of the functional groups and other organizations who supported returning to the 1945 Constitution.

To be consistent with the presidential system at the central level, organization of regional government, which had been based on Law No.1 of 1957, also needed to be rearranged. For this purpose, Presidential Edict No. 6 of 1959 was issued on 9 September 1959, followed by some minor revisions two months later (see Lembaran Negara No.129/1959 and TLN 1896; Gie, 1993b:215). This edict suspended the provisions of Law No.1 of 1957 relating to the election of regional heads.

³⁰ Adnan Buyung Nasution discusses this issue in detail in his 1993 PhD dissertation.

³¹ Functional groups represented various economic and social sectors such as workers, peasants, entrepreneurs, professionals, religious communities, women etc.

Presidential Edict No. 6 of 1959

Presidential Edict No.6 of 1959 was designed to ensure stability and improve efficiency in the regions by strengthening central control through regional heads. The regional head was now made a state official.³² He or she was to be appointed by the Ministry of Home Affairs for the first level and by the governor for the second level from a list of candidates provided by the relevant DPRD. But the edict also stipulated that if candidates nominated by the DPRD failed to meet the qualifications set by the central government, the DPRD would be required to submit another list of candidates.³³ If the names on the second list also failed to meet the requirements, the President and the Minister of Home Affairs were empowered to make appointments from outside of the list of nominations. This stipulation would enable the central government to appoint regional heads from the *pamong pradja* and the armed forces who were loyal to the centre.

Consistent with Law 22 of 1948, the presidential edict also expected the regional head to exercise a dual function. As an organ of regional government, the regional head was responsible for the execution of matters falling within the field of autonomy. As an organ of the central government, he or she was responsible for matters which had previously been under the responsibility of the *pamong pradja*. He or she was also empowered to delay decisions of the DPRD which were in conflict with higher legislation or national interests. For handling regional matters, the regional head was still to be responsible to the DPRD, but the nature of the responsibility was clearly limited by the fact that he or she could not be

³² State officials (*pegawai negara*) differ from civil servants (*pegawai negeri*). The former category includes the President and the Ministers, while the latter category included all those whose salaries and conditions were regulated by the normal civil service regulation (The PGPN). Members of the *pamong pradja* were civil servants.

³³ A presidential decree was issued to implement the presidential Edict No.6 of 1959. But the conditions for the position of regional head laid down in this regulation were very vague.

dismissed by this council. Moreover, the regional head was made the sole administrator in the region. He or she did not share executive power with the DPD because under presidential edict No. 6 of 1959 this council no longer existed. The edict made it clear that regional government now consisted of only the regional head and the DPRD.

Another council, the Executive Council (*Badan Pemerintah Harian* - BPH) was established. Unlike the DPD, this new body was a group of assistants to the regional head. Its members were appointed by the Ministry of Home Affairs and Regional Autonomy for the first-level of government and by the governor for the second level of government, from the members of respective DPRD and from elsewhere (Kansil, 1991:68-69).³⁴ Even though appointments were based on the lists proposed by the DPRD, the members of BPH were accountable to the regional head, not the DPRD. This new arrangement fundamentally changed the existing system of regional government.

The edict was also intended to eliminate the influence of political parties in government. It stipulated that regional heads and members of the BPHs should be free from party affiliations. This stipulation, combined with the decline in the political importance of the parties, eventually removed the incentive for civil servants to join political parties, and caused those *pamong pradja*, who formerly had joined parties to safeguard their future advancement, to terminate their political affiliations. But, as Legge argued, in the short run their resignation from their parties did not change their sympathies (Legge 1961:221).

The power of the political parties in the regional council was further reduced by presidential edict No. 5 of 1960 regarding the establishment of the *gotong royong* parliament or DPRGR. In this edict, the regional head was allowed to appoint additional

³⁴ Under *Kabinet Kerja*, the Ministry of Home Affairs became the Ministry of Home Affairs and Regional Autonomy.

members to the regional council from functional groups. This put political parties in the minority on the regional council. In addition, the edict also made the regional head the chair of the DPRGR. This meant that both legislative and executive powers were concentrated in the hands of the regional head. Under such a situation, the regions could no longer function as effective political forces in Indonesian politics.

Presidential Edict No.6 of 1959 was supposed to be part of the effort to implement the 1945 Constitution, especially Article 18. But as criticized by Kuntjoro Jakti,

The restoration of the 1945 Constitution did not in fact revive its Article 18 on regional government. New presidential decrees treated the regions as mere administrative units within the framework of a highly centralized national bureaucracy, totally subservient to the will of the central regime (Kuntjoro Jakti, 1981:139).

The regional head became merely a representative of the central government in the region, providing a link between the centre and the *pamong pradja* such as the residents, the *wedanas* and the assistant *wedanas* whose positions were now revived.

Law 18 of 1965

Following the Presidential Edict, the *Badan Perancang Nasional* or National Planning Board was set up. This board was given the task of formulating national development plan for the whole nation. A year later, a blueprint called *Pola Pembangunan Nasional Semesta Berencana Tahap Pertama 1961-1969* was submitted to the MPRS. This document proposed that autonomy be granted at two levels: to residencies (the first-level) and to *kecamatan* (the second-level). The provinces were to be turned into administrative regions. Large cities would be regarded as first-level, and small towns as second-level government. *Kabupaten* were abolished for both economic and political reasons. Firstly, these units were not large enough to accommodate the development of economic activities

such, as industrial estates. Secondly, *kabupatens* had been formed by colonial government and allegedly possessed certain feudal characteristics; therefore, they should be abolished (Gie, 1993b:242).³⁵

The second reason was a bluff: after independence the government's division into administrative areas continued administrative divisions from colonial times. The real reason might have been to eliminate the issue of "*Javanisasi*". As previously mentioned, the term *kabupaten* originally refers to the administrative division under the residency in Java. The Outer Islands did not really have the counterpart of the *kabupaten*.

The proposal was approved by the MPRS with minor revisions. With regard to regional government, the MPRS suggested the government prepare a new law to replace the presidential edict and Law No.1 of 1957, which had been partially suspended. One reason for doing so was to provide legitimate measures for the new arrangement of regional government introduced by the presidential edict No.6 of 1959. This was not considered powerful enough to replace Law No.1 of 1957 since it had not passed through the parliament. In 1961, a committee was set up for the purpose of formulating the legislation. Soeroso, the main drafter of Law 22 of 1948, was selected chairman. After long debates in the parliament, Law No.18 of 1965 on regional government was enacted on 1 September 1965. The enactment of this law made all other legislation related to the system of regional government invalid.

There were no substantial differences between Law 18 of 1965 and President Edict No. 6 of 1959. The law established a three-tiered system of autonomous regions: *Daerah Tingkat I* (first-level) at provincial and *kotaraya* level; *Daerah Tingkat II* (second-level) at

³⁵ The boundaries of *kabupatens* were usually defined based on the territories of the traditional rulers. The heads of *kabupatens* were appointed from the rajas or sultans's family.

kabupaten and municipal level; and *Daerah Tingkat III* (third-level) at *kecamatan* and *kotapradja* level.³⁶ Each regional government consisted of the regional head and the regional council (DPRD). Nearly all other provisions on the position and power of the regional head in this law were taken over from the President Edict No.6 of 1959, where regional heads were given both legislative and executive powers. One main difference was that in Law No. 18 of 1965, the stipulation that the regional head and the members of BPH were prohibited from party affiliation no longer existed.

This law was again short-lived, even though it theoretically remained in force until 1969. One month after its enactment the attempted coup of 1965 occurred. The political turmoil following the coup forced President Soekarno to issue the letter of instruction of 11 March 1966 (*Surat Perintah Sebelas Maret*, abbreviated *Super Semar*), which allowed the Commander in Chief of the army leader, General Suharto to take control of the country. This transfer of authority was then legitimized by the MPRS decision No. IX of June 21 1966. This decision marked the end of the Guided Democracy period.

Why Decentralization Failed

This chapter has shown that decentralization programs initiated in Indonesia from 1945 to 1965 had failed to achieve its objective to devolve part of the central authority to the regions, despite the fact that this issue had been on the agenda of all governments since 1945. The idea of decentralization in the unitary republic seemed too difficult technically and politically to be translated into action. Any attempt to draft legislation intended to clarify this concept had always been confronted with the same outstanding issues, for which solutions were difficult to obtain: 1) what powers should or could be given to sub-national

³⁶ Kotaraya refers to Jakarta, the capital of the Republic.

levels of government?; 2) to which levels the powers should be given?; and 3) how central control over the regions should be enforced so that national integration could be maintained?

The scope of autonomy was one issue over which much of the parliament and the government had always been deeply divided. While many members of parliament favoured broad autonomy for the regions, the government tended to narrow the scope of regional autonomy as much as possible. In such a large country as Indonesia, composed of different ethnic groups, the question of how much power should or could be given to the sub-national governments was not easy to answer because both too much and too little power could cause political instability, which might result in national disintegration. Since the balance was difficult to define, the division of power between the centre and the regions was never made clear in any decentralization law passed from 1945 to 1965. In Law No. 1 of 1945, responsibilities were divided between the centre and the regions based on a hierarchical limitation method. Regional governments could deal with any issue, as long as it was not specifically pre-empted by the centre or by a higher regional government. However, the law stipulated that autonomy could be exercised only over household affairs. But the law itself did not provide any detail on what those household affairs should be. It implied that the household affairs were not necessarily the same as matters, which were not covered by the higher level of government.

Under Law 22 of 1948, the fields in which regions had authority were enumerated, and all residual powers were left with the central government. But among activities transferred to the regions, the power of autonomy could be exercised over only a limited number. Moreover, the same general subjects appeared in the establishment of all levels of

government - provinces, municipalities, and *kabupatens*. No attempt was made to allocate different fields to different levels.

In contrast to Law 22 of 1948, matters within the purview of the centre in Law 1 of 1957 were elaborated and residual powers were left with the regions. This provision in principle provided more room for local initiatives. Unfortunately the idea was never really implemented because Law No.1 of 1957 did not automatically suspend previous legislation on the establishment of regional government, which stipulated in detail what a particular region could do. Moreover, the reluctance of central ministries to transfer the whole set of activities, which were supposed to be under the jurisdiction of the regions, also reduced the scope for regional discretion. The outbreak of regional rebellions which were partially due to the slow progress of decentralization provided the centre with an even stronger reason to further reduce the scope of regional autonomy.

At which level(s) of government the autonomous units should be established was another outstanding issue. Law No.1 of 1945 followed the *Staadblad* 329 of 1903 in proposing autonomy for the residencies, the *kabupaten* and municipalities. However, residencies were seen as too small to serve as the first or highest level. Therefore, in Law No. 22 of 1948 the provinces became first-level regions and residencies became mere administrative units. In Law No. 22 of 1948, the *kabupatens* and municipalities were made second-level regions and *desas* were proposed to be the third-level of government. During implementation, the plan to establish the third level at the *desa* level was abandoned because they were seen as too small to be effective self-governing units. Despite the controversy over the effectiveness of establishing third-level government at the village level, Law No.1 of 1957 still proposed the same levels of autonomous regions. But in 1960, another arrangement was proposed by the National Planning Board. Autonomy was granted

to two levels: to residencies (the first level) and to the *kecamatans* (the second level). The reasons were both economic and political. While residencies were seen as too small to become economically and politically independent from the central government, the *kecamatans* were regarded as large enough to effectively serve as a unit for public services. This proposal was opposed by the parliament because it was not in conformity with Article 18 of the 1945 Constitution.

The degree of central supervision over the regions was another issue over which the government and the political parties in the parliament disagreed. The government (Ministry of Home Affairs) had always considered that, as a unitary state, supervision over the conduct of the regional government was necessary and that the most effective system of supervision was through the direct appointment of *pamong pradjja* officials as regional heads. However, parliament demanded the position of regional head be political and that supervision be restricted to a minimum. This demand was granted under Law No.1 of 1957. However, this law was never implemented. Its enactment coincided with heightened tension between the centre and the regions. This tension led to the proclamation of martial law, which greatly strengthened central control over the regions. This law was partly suspended by Presidential Edict No.6 of 1959 and totally replaced by Law No. 18 of 1965. This Law reintroduced the appointment of regional heads. Under this law, central control over the countryside became stronger and remained strong during the early days of the New Order government.

Chapter IV

Law No. 5 of 1974: the Legal Framework for Decentralization in the New Order Indonesia

In 1974, the New Order government issued Law No.5 of 1974 on Principles of Government in the Regions. This law established a framework for the implementation of decentralization policy in Indonesia. This chapter discusses the process in which the Law was formulated and translated into action. The analysis focuses on the influence of the circumstances and the distribution of power among the key actors on the Law's content and implementation.

The study shows that Law No. 5 of 1974 failed to increase regional autonomy in Indonesia. Its failure was primarily due to the fact that the law itself did not intend to devolve more power and authority to regional levels. Instead, most of its provisions were concerned with the establishment and operation of a highly centralized political structure at local level. This structure was intentionally built to ensure continued political stability and economic development. Historical context and circumstances during the Law's drafting significantly influenced leaders' objectives and their perceptions of what was the appropriate relationship between the center and regions in order to achieve those objectives.

Background of the Decentralization Policy

The political turmoil following the 1965 coup attempt and the rapid decline of Sukarno's power provided the regions with an opportunity to revive their old demand for autonomy. This time, the window was opened by the center. The New Order government,

which came into power in 1966, faced an immediate challenge in restoring internal security. This task was not easy, especially in regions where regional army commanders openly declared their sympathy for President Sukarno (MacAndrew 1986:11; Crouch 1978:214). The New Order's urgent need for regional support forced it to compromise with political parties and the regions, which demanded greater regional autonomy. Moreover, there were also perceptions that all laws introduced during the period of guided democracy should be abolished, including Law No. 18/65 on regional government, because they did not conform to the intention and spirit of the 1945 Constitution. This situation finally led to the adoption of MPRS decision No. XXI/MPRS/1966 regarding regional government (Kuntjoro-Jakti 1981:142; Bhenjamin Hoessain 1996:58).

Inspired by the spirit of Law No.1 of 1957 on regional government, the MPRS decision stipulated that autonomy would be given as "broadly as possible" to the regions to allow them to become self-reliant (*swadaya*) and self-sufficient (*swasembada*) as quickly as possible. In the MPRS decision, it was stated that this objective would be achieved by: 1) transferring all government responsibilities to the regions, including staff and financial resources, except for those functions considered as strategic for national purposes; 2) restructuring central-regional fiscal relations; and 3) giving regional governments control over their personnel and authority to manage local affairs. To implement this decision, the government and the DPRGR were requested to prepare legislation for the implementation of the decision soon.

In response to the MPRS decision, the Department of Home Affairs prepared three draft laws: on the position and relationship between central and regional governments, on *swatantra* (autonomous) regions and on deconcentration. The first two drafts were submitted to the parliament in 1968 and the third in 1970 (The Kian Gie 1995: 83). A series

of debates following submission of the first two drafts, however, failed to reach compromise between the political parties's demand for greater power to regional assemblies, as in law No.1 of 1957, and the government's insistence that this was administratively and financially impossible (Gie 1994: 83). Although a new law had still not been worked out, the Government and DPRGR agreed to issue Law No.6 of 1969 which stated that Law No. 18 of 65 was no longer in effect.

Meanwhile, the MPRS decision to grant autonomy to the regions "as broadly as possible" had encouraged regions to demand a greater financial share. At the 1967 conference of governors in Solo, regions demanded that 30 percent of annual central revenue be ear-marked for regional budgets, both in order to meet their long neglected financial needs and to support the expected implementation of the MPRS decision (Sinaga in Kuntjoro-Jakti 1981:147). To address this demand, the New Order government came up with the ADO (*Alokasi Devisa Otomatis* or Automatic Exchange Allocation) scheme, in which regions were automatically given a share of revenue and foreign exchange in the form of a 10 percent export tax on all exports from their respective ports. The receipts, which accrued in the form of foreign exchange, could then be directly sold by the regions to prospective importers, or used to import capital or consumption goods under their own regional economic policies. The *Rupiah* proceeds could be used to finance self-initiated regional development projects. With this scheme, the government hoped the provinces would stop raising money through smuggling and unauthorized local trade taxes. While the regions perceived this decentralization scheme as a concession, it was seen by the Central

government as a means to get support from the strongest export regions outside Java (Kuntjoro-Jakti 1981:147-148).¹

The ADO scheme was actually a temporary solution to the problem of regional budgets, because another team in the Department of Finance was preparing a new law on fiscal balance. This proposal was sent to the parliament in 1968, but parliamentary debates ended in deadlock. Inspired by the concessionary nature of the ADO scheme, during the debate regional representatives in the parliament demanded 50 percent of the total central revenue to be allocated to the regions. To compromise, the central government agreed to allocate 30 percent of the total central budget, as requested in the 1967 conference of governors, provided that half is used to finance operations of the Department of Home Affairs in the regions. In addition, the government also offered 10 percent of revenues from exports for provinces able to reach the targets set by the center, and 2 percent for those unable to reach the targets (Frans Seda 1976: 61-70). Debate on this measure was delayed: in 1973 no final agreement on the matter had been reached by the two sides. The government's delaying tactics provided it with enough time to finalise the law on regional autonomy, which would provide a framework for future policy on fiscal relations.

Meanwhile, the ADO, which had been effective in reviving exports and ending smuggling practices in the Outer Islands, was abolished in 1969 on the grounds that this scheme had produced a highly discriminatory redistribution effect. Under the ADO system, export regions tended to receive more revenues than their non-export counterparts. To replace the decentralized ADO scheme, the government introduced a centralized subsidy scheme, the SPP ADO (*Sumbangan Pemerintah Pengganti ADO* or Grant in lieu of ADO).

¹ Conflict between the center and the regions over the allocation of the central budget had encouraged export regions in Sumatera, Kalimantan and Sulawesi, to smuggle their commodities to Singapore, Malaysia and the Philippines.

This scheme was also designed to support the implementation of the *Rencana Pembangunan Lima Tahun Pertama* (Repelita I, or the First Five Year National Development Plan), which started in 1969 (Kuntjoro-Jakti 1981:149).

In 1971, the government withdrew the three draft laws on regional autonomy for further refinement. Following the withdrawal, Major General Amir Mahmud, Minister of Home Affairs, formed a team charged with drafting a new proposal. The team consisted of several army officers who were being seconded to several related central agencies and civilians from the Department of Home Affairs. Manihuruk, a high-ranking army officer, who was also the Head of BAKN (*Badan Administrasi Kepegawaian Negara* or the National Board for the Administration of the Civil Servants), was made Team Leader. Suyanto, Secretary General of the Department of Home Affairs and a civilian, was the team's secretary. This team simplified the previous draft laws and combined them into a single new proposal (Manihuruk 1991; Bhenyamin Hoessein 1996:59).

In September 1972, Manihuruk's team finalized the new draft legislation on regional government. In this draft, autonomy to the regions was defined as "real and responsible autonomy", instead of the "broadest autonomy" as stated in the MPRS's decision. This new definition implied that regional autonomy would be restricted within limits defined by the center. Manihuruk's team seemed to believe that broader regional autonomy was not suitable to Indonesia's situation at that time. Since its content very much conflicted with the MPRS decision No. XXI/MPRS/1966, the team realized that submitting the document to the parliament could result in another deadlock. To pave the way for the new concept of regional autonomy, the content of the MPRS decision had to be corrected by another MPR decision. For this purpose, the submission of the draft law to the parliament had to be

postponed to allow the new MPR resulting from the 1971 general elections to revise the content of the 1966 MPRS decision.²

Meanwhile, the destruction of the PKI (Indonesian Communist Party) in 1966 had allowed the army to emerge as the main political force. The effective dismissal of Sukarno in 1967 and the success of the military reorganization made central control over the regions more effective, and reduced the regime's dependence on support from political parties in the regions (Pabottingi 1995:247). The consolidation and transformation of hundreds of functional groups into a single political party, *Golongan Karya* or Golkar, in 1969, followed by Golkar's remarkable military-supported victory in the 1971 general elections reduced the power of political parties in the DPR and MPR.

The enactment of Law No. 16 of 1969 on the MPR/DPR/DPRD, which enabled the president to appoint one-fifth of the members of the DPR and three-fifths of the members of MPR, further reduced the proportion of political party representatives in the DPR and MPR.³ This new balance of power in the parliament and in the MPR, the highest institution, guaranteed their acceptance of the government's concept about the future direction of the state policies.

At the same time, the success of the technocrats in combating rampant inflation and restoring the declining economy inherited from the old regime provided the New Order regime with a stronger economic base. More securely in power, the New Order government moved from the liberal central-regional policy as envisaged in the 1966 MPRS decision, to a centralized framework.

² As stated by Manihuruk in a seminar on 24 July 1991: and by Bhenyamin Hoessain, personal conversation, April 1997.

³ In 1967, Suharto had managed to get an important agreement from the leaders of political parties that one-fifth of the parliament (DPR) and three fifths of the MPR be appointed by the president in order to safeguard the Pancasila and the 1945 Constitution. After the 1971 election, the DPRGR was replaced by the elected DPR and the provisional MPRS was replaced by the MPR.

In 1973, the MPR resulting from the 1971 elections issued its decision No. IV/MPR/1973 regarding *Garis-Garis Besar Haluan Negara* (GBHN, the Broad Outline of the State Objectives). Its clause on regional government stated that,

To speed up the implementation of development efforts which take place throughout the country, and to maintain political stability and the nation, a harmonious relationship between the center and the regions should be built based on the unity of the Unitary State, and directed toward the implementation of real and responsible autonomy which ensures the development of the regions, and would be implemented together with deconcentration (translated from the Appendix of GBHN, Chapter IV on *Pola Umum Repelita II*).

In addition, the MPR also issued decision No. V/MPR/1973, which stated that the MPRS decision No. XXI/MPRS/1966 was no longer valid because its content had been "accommodated in" (another word for "not in conformity with") the newly introduced concept of autonomy formulated in the MPR decision No. IV/MPR/1973.

Parliamentary Debate on Regional Autonomy Law

As planned, the government submitted its draft law on regional government to the DPR in 1974. A series of parliamentary debates was conducted from May 20 to July 2, 1974, during which several issues were raised by the political parties. The PPP (*Partai Persatuan Pembangunan* or United Development Party), which was an amalgam of Muslim parties, expressed its dissatisfaction with the content of the proposed law, particularly with the new concept of "real and responsible autonomy". However, the decision to adopt this concept had been made by the MPR. In addition, PPP was concerned with the government's intention to emphasize deconcentration rather than decentralization (devolution). PPP argued that the emphasis on deconcentration might strengthen the centralistic tendency.

Our fraction is of the opinion that the principle of decentralization (devolution) should be the main guidance in the discussion of this draft law, and that decentralization (devolution) should be implemented together with deconcentration, not the other way around.

MPR Decision No. IV/MPR/1973 was not intended to make deconcentration as important as, or more important than, decentralization (devolution). The MPR decision was aimed at implementing decentralization together with deconcentration.... On the contrary, the government seems to place deconcentration above everything in the regions (translated from Suyamto et al. 1985:107-108).

In response to the PPP's comments, one government representative argued that, in a unitary state, emphasis should be given to deconcentration. Therefore, the government's idea to balance the implementation of those two principles should be seen as an acceptable compromise (Suyamto 1988:40; 1993:14-15).

Regarding autonomy, the government proposed that autonomy be given to the first (provincial) and second (district) levels (Dati I and Dati II), with the emphasis on the second level. The government feared that giving too much autonomy to Dati I government might allow these units to become independent of the center, which might threaten the unity of the country. Greater autonomy at Dati II did not pose the same threat to national integration because Dati II was considered too small to aspire to independence. However, this consideration was never made public. Instead, in its proposal, the government argued that autonomy for Dati II regions was more appropriate because government at this level was closer to the community and therefore, better understood local needs and aspirations.

According to Suyamto, the Secretary to the Manihuruk Team, during the preparation of the draft law some members proposed three levels of autonomous region: Dati I, Dati II and Dati III, as laid down in Law No. 1 of 1957. Inspired by a concept proposed by Hatta in the early 1950s, Suyamto was opposed to this and suggested that autonomy be given only to the district (Dati II) level while the provinces (Dati I) would function merely as

administrative units. He also restated Hatta's argument that multiple levels of autonomous regions might not effectively democratize the political system because power might be concentrated at the highest level and lower levels would be left powerless. Manihuruk, the team leader, agreed in principle with Suyamto's suggestion, but thought abolishing autonomy at Dati I might create further political turmoil because Dati I governments would certainly oppose this idea. Moreover, Manihuruk argued, the parliament would certainly not accept autonomy at only one level because Article 18 of the 1945 Constitution clearly stated that the Indonesian territory was divided into large and small autonomous, as well as, administrative regions. The words "large and small" here could be interpreted as implying more than one level. The team agreed to propose autonomy for Dati I and Dati II, but emphasis would be given to Dati II. By emphasizing Dati II, they hoped that it would not be difficult to abolish the Dati I's autonomy in the near future. But, as Suyamto admitted later in his book, the team never revealed to the parliament its real intention for the future of the Dati I (Suyamto 1991:36-37).

As expected, during the parliamentary session, PPP and the Nationalist-oriented Partai Demokrasi Indonesia (PDI) wanted autonomy established at three levels, as in Law No.1 of 1957. They argued that autonomy should also be given to villages (*desa*) because *desa* autonomy had been guaranteed in the 1945 Constitution.⁴ They further argued that autonomy at the *desa* level might provide more benefits to local communities by providing government services to all people, even those who lived in remote areas. Although not stated, the parties were also motivated by the desire to provide as many opportunities as possible for their members to be elected to local legislatures. But the government's

⁴ In the elucidation of the 1945 Constitution for Article 18, it was stated that traditional villages were considered as special regions and the autonomy of special regions was guaranteed by the Constitution.

representatives did not agree. They regarded autonomy at the *desa* level as financially and administratively too difficult. The government's argument was supported by the military and Golkar, the Government's party, in the parliament. Consensus was achieved that the level of autonomy and its scope might change over time, depending upon socio-economic and political development but for the time being two levels were seen as more appropriate (Gie 1995:82). Political parties may have seen this solution providing an opportunity for reviving consideration of the autonomy of *desa* in the future: to the government, this consensus provided an opportunity to abolish the Dati I's autonomy in the future.

The debate also considered the position of regional heads. The government wanted regional heads to function both as head of "autonomous regions" and as the central government representative in the regions, as in Presidential Edict No. 6 of 1959 and Law No. 18 of 1965. The government also proposed that regional heads be *penguasa tunggal*, the sole administrator or authority in the regions, as in Law No. 18 of 1965. Under this proposal, executive councils were no longer needed because executive decisions would be made solely by regional heads. For this reason, regional heads would be selected by the central government and be accountable only to the president.

The PPP and PDI opposed this proposal on the grounds that the strong position of the regional head might result in the disappearance of democracy in the regions. As stated by their representative,

Our fractions are concerned about the development which leads to the possible disappearance of democracy in the regions through the institution of the regional head as proposed in this proposal; but we wish the government had the same opinion as ours that the position of the regional head should not be like a parasitic plant that clings to a big tree and finally turns out to kill the tree (translated from Suyamto 1985:110).

These two fractions suggested that to maintain the democratic principle of local government, the regional heads should not be the sole administrator in the region, and in carrying out their tasks, they should be assisted by an executive board on which the parties were represented like the former DPD (Law No. 1 of 1957) or BPH (Law No.18 of 1965) (The Liang Gie 1995:83). The government disagreed, believing institutions like the former DPD and BPH were no longer needed because regional heads were to be the sole administrators in the regions. As Manihuruk argued,

Because the members of executive council were elected by the members of the regional council based on a balanced representation, governance in the regions could not be made efficient and effective because any decision had to be made through a process of compromise. This is a time-consuming process because the compromise had to be reached not only between the executive council and the regional council, but also among the members of the executive council itself (translated from Manihuruk 1991:5).

The government's intention not to establish executive councils, according to Manihuruk, was supported by the military and Golkar fractions. They also believed this kind of body might complicate the process of decision-making in the regions.⁵

However, PPP and PDI fractions insisted that a body like the former DPD or BPH be established. These two parties believed the absence of an executive council reduced the opportunity for regional assemblies to influence the executive arm of government at the regional level. Eventually, a compromise was reached with the establishment of the *Badan Penasehat Daerah* (BPD or Regional Advisory Board). But this body had no real power. Unlike DPD, this board was not an executive council. BPD also differed from the former BPH. Its task was limited to providing suggestions to the regional head, and was not involved in government activities handled by the regional head.

⁵ Based on Manihuruk's lecture at Lembaga Administrasi Negara, 24 July 1991.

The proposal that regional heads be selected by the central government was also rejected by the PPP. According to this party, the regional head was supposed to be given a mandate by the people in his or her region. For this reason, he or she should be elected by the members of the DPRD. The PDI agreed with the PPP's conclusion, but for a different reason. The implementation of "real and responsible autonomy", according to PDI, required the confidence of the central government and its recognition of the maturity of regions to choose their own leaders (Far Eastern Economic Review, June 17, 1974).

Compromise was reached between the two parties and the government. The DPRD would propose a list of candidates for regional head. The list had to be approved by the Department of Home Affairs, and then selection would be made from the list by the president, for the governor, and Department of Home Affairs for the *bupati* or *walikota*. (Tambunan 1979:17-18).

The idea that regional heads were accountable only to the president was also rejected by the PPP and PDI fractions. They wanted the regional head to be responsible to the DPRD so that he or she could be discharged by this assembly. The government, however, insisted on imposing the system as applied at the central level, where the president, as the highest authority, was not accountable to the central parliament (DPR) and could not be discharged by the parliament. The government argued that in a unitary state, the central pattern should be reflected at regional and local levels. Thus, regional heads should be the highest authority in the region and should not be responsible to the DPRD (Tambunan 1979:18-20).

On July 23, Law No. 5 of 1974 on *Pokok-Pokok Pemerintahan di Daerah* (Principles of government in the regions) was enacted. The PPP and PDI wanted this law to be called *Undang-Undang tentang Pemerintah Daerah* or *Undang-Undang tentang Pemerintahan Daerah* (Law on Regional Government). But the government representatives

regarded the title proposed by the two political parties as not reflecting its content. Since the Law was concerned not only with the activities of regional government but also with the central government's activities conducted in the regions, the government suggested that the law to be named *Pokok-Pokok Pemerintahan di Daerah* (Tambunan 1979: 35).

Law No. 5 of 1974

Administratively, regional government was stratified into four levels: the province; the district (the municipality or *kotamadya* for urban areas and the regency or *kabupaten* for elsewhere); the sub-district or *kecamatan*, and the village (the *kelurahan* in the urban areas and the *desa* in the rural areas). Each level was headed by a regional head (*kepala wilayah*): the governor for the province, the *bupati* for the regency and the *walikota* for the municipality, the *camat* for the *kecamatan*, and the *lurah* for the *kelurahan* and the *kepala desa* for the village.⁶ These administrative units were made hierarchical and all *kepala wilayah* were responsible to the central government through the hierarchical structure of the government.⁷ As representatives of the central government in the region, governors were responsible for the activities carried out by the central government's offices in their province and *bupati* and *walikota* were responsible for the activities of the central government's offices in their districts.⁸

Law No. 5 of 1974 established two levels of "autonomous regions": *Daerah Tingkat I* (Dati I, the first level) and *Daerah Tingkat II* (Dati II or the second level). The boundaries of Dati I coincided with those of provinces and the boundaries of Dati II with those of

⁶ The detailed arrangements for village administration were given in Law No.5/79.

⁷ Kepala wilayah refers to the head of an administrative unit, a representative of the central government in the region. .

⁸ Each central department had its representative in all regions. Central department's office at the provincial level was called Kantor Wilayah or Kanwil and its office at the district level was called Kantor Departemen or Kandep.

districts - *kotamadya* or municipalities in urban areas and *kabupaten* or regencies in rural areas (Articles 2,3, 72 and 74 of Law No. 5 of 1974). Each level of autonomous region was headed by a *kepala daerah*, who was responsible for functions falling into his or her jurisdiction.⁹ In doing his or her tasks, a *kepala daerah* established a number of service units (*Dinas*) and offices.

Governor served both as head of Daerah Tingkat I and Bupati or Walikota as head of Daerah Tingkat II. The dual function of the regional head both as representative of the central government and as representative of the region would obviously undermine the autonomy of the Dati I and Dati II. However, this structure was intentionally designed to allow the center to effectively control the regions down to the village level. This tight control was seen by leaders of the New Order government as crucial for ensuring continued political stability and effective implementation of national development policies (see also MacAndrew 1986). This structure was reinforced by the parallel structure of the territorial military organization in the region (see figure 5.3), which enabled the military to keep close watch over the entire structure of civil government.

⁹ As head of autonomous region, regional head was not responsible to the central government, but to regional or local council.

Figure 4.1. The structure of regional government according to Law No. 5 of 1974

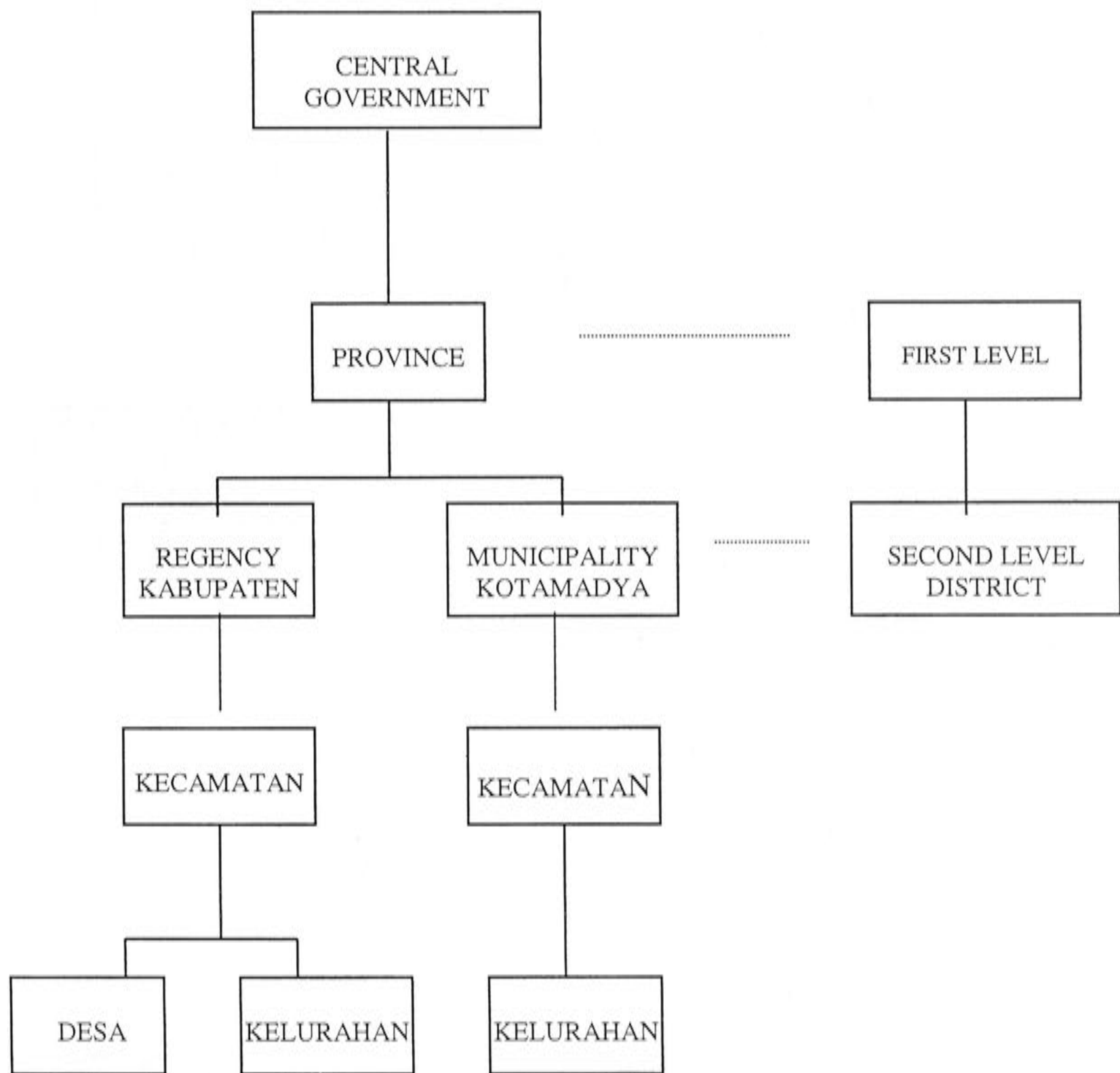
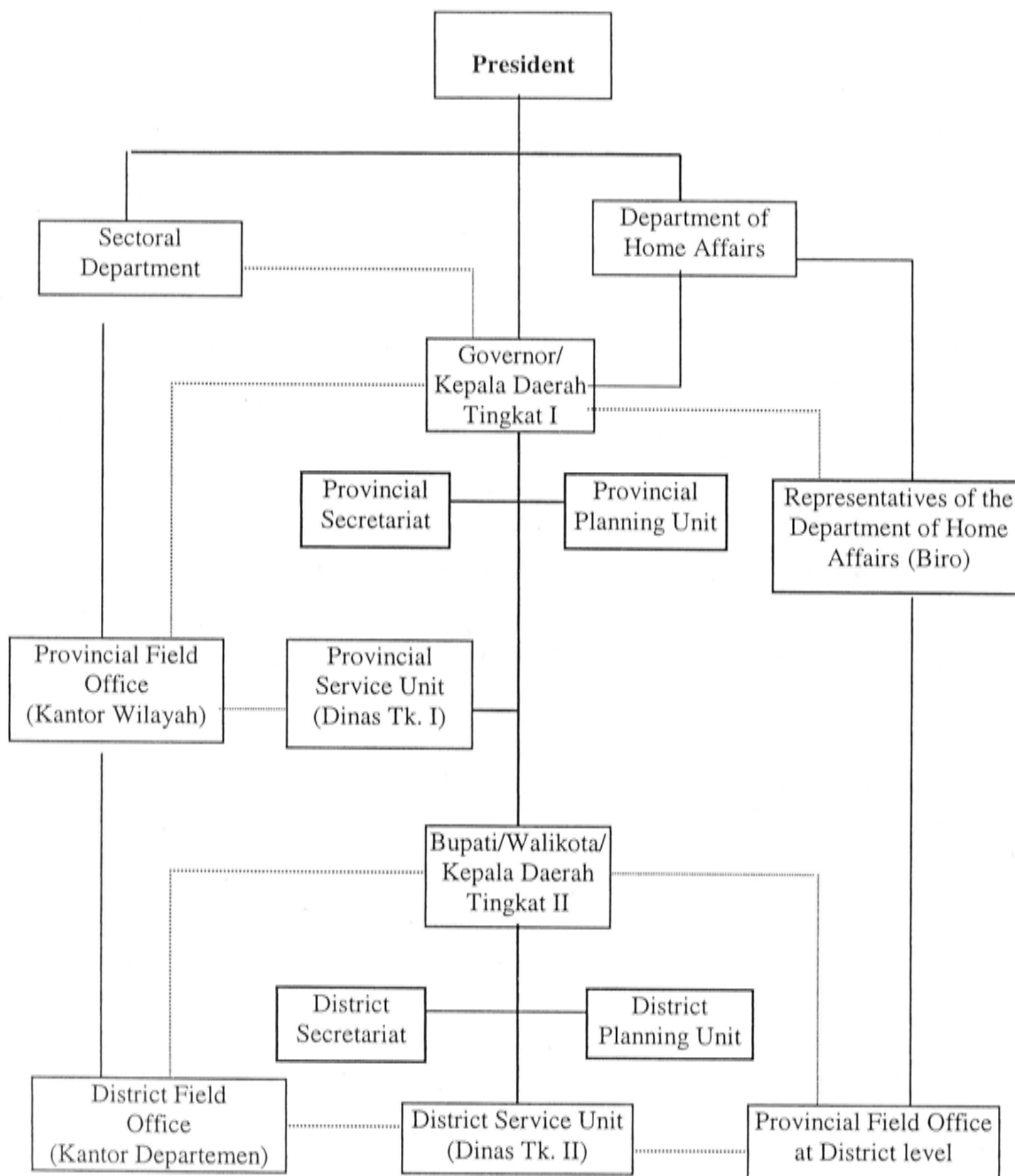


Figure 5.2. The relations between the organs of “administrative” and “autonomous” units according to Law No. 5 of 1974

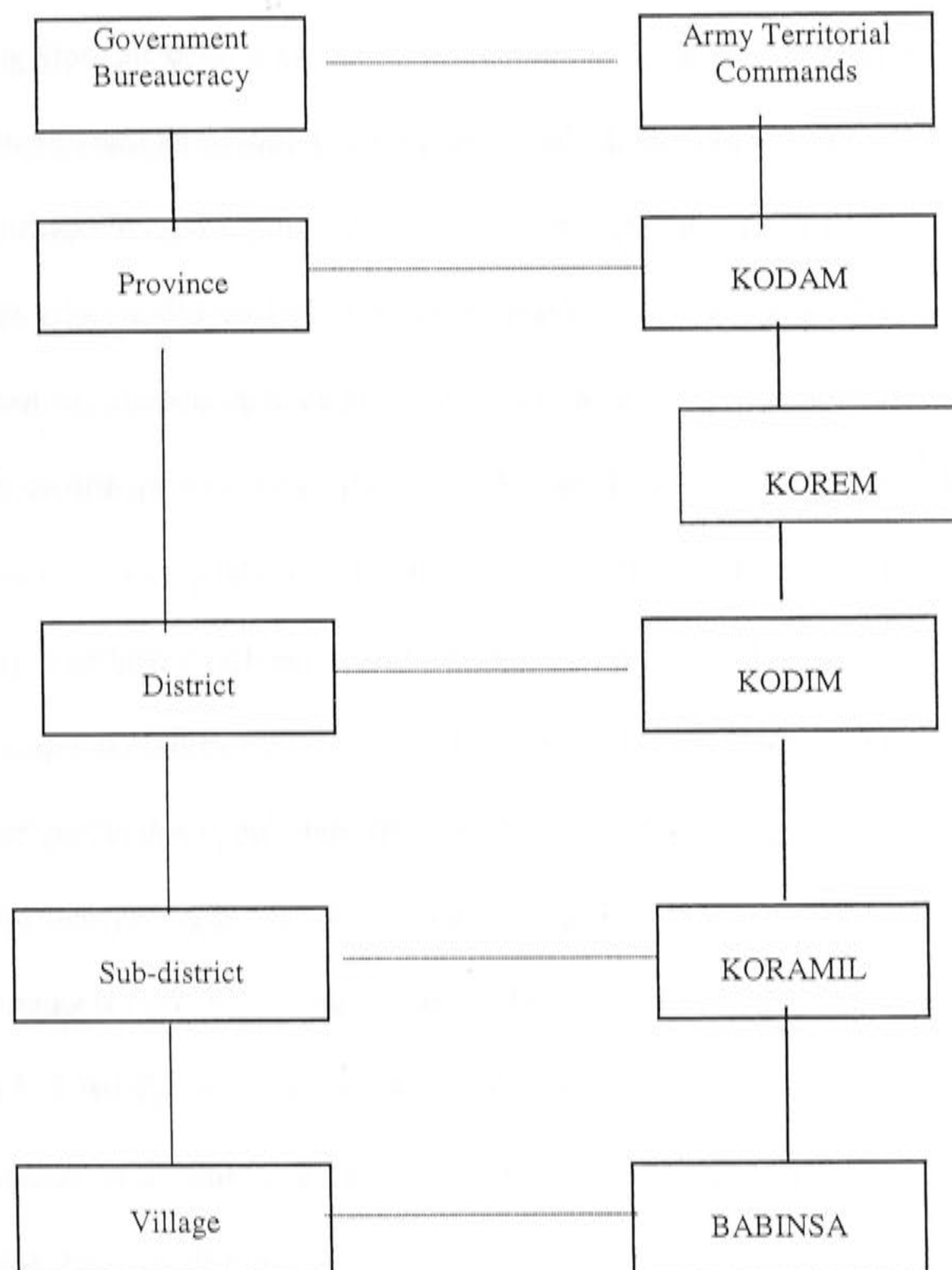


— line of command
 - - - line of coordination

Note:

1. A sectoral department is one that deals with a particular activity e.g. Education, Public Works, and Agriculture etc.
2. As representatives of the central government, governors and bupati/walikota were responsible for activities performed by the organs of the central government (Kantor Wilayah and Kantor Departemen).
3. As the heads of autonomous regions, Kepala Daerah Tingkat I and Kepala Daerah Tingkat II were responsible for activities performed by the organs of the autonomous governments (*Dinas*).

Figure 5.3. Relationships between the Regional Government Structure and Territorial Military Structure



Source: Salim Said, "The Political Role of the Indonesian Military: Past, Present, and Future". *SouthEast Asian Journal of Social Sciences*, vol 15, no. 1, 1987, p. 27.

Note:

- KODAM (military regional commands) cover major provinces or groups of smaller provinces;
- KOREM (military resort commands) cover more than one districts;
- KODIM or military district commands were established at district level;
- KORAMIL (military rayon commands) were based at sub-district level and
- BABINSA (guidance NCOs) were placed in villages.

Law No. 5 of 1974 provided that activities in the regions be carried out according to three basic principles: decentralization, deconcentration, and *medebewind*. Decentralization refers to the transfer of responsibilities from the central government to the self-governing Dati I and Dati II, and from Dati I to Dati II. Responsibilities or functions transferred to Dati I and Dati II were called *urusan rumah tangga daerah* or “regional household functions”. These functions were to be performed by *dinas* (service units) or other units under the autonomous governments. Authority to make decisions over these household functions was also given to these autonomous Dati I and Dati II. In this sense, the concept of decentralization here approximates to political decentralization models.

Deconcentration is the delegation of responsibilities either from central departments to their field offices at provincial and district levels, or from a provincial *dinas* to their branches at district level. Deconcentration here is functional decentralization where the central or provincial government delegates part of its functions to be performed by its own offices at sub-national or sub-provincial level. The Law made it clear that deconcentration was not considered a complement to decentralization, as in Law 18/1965, but to be implemented together with decentralization.¹⁰ Deconcentration required the establishment of central departments field offices known as *Kantor Wilayah* (abbreviated Kanwil) at provincial level and *Kantor Departemen* (abbreviated Kandep) at district level, parallel to the structure of regional government. Deconcentration of provincial government required the provincial *dinas* (*Dinas Tingkat I*) to establish branch offices at the district level (*Cawang Dinas Tingkat II*). These units were to be charged with the implementation of deconcentrated activities (see figure 5.2).

¹⁰ See point h. in the Elucidation of Law No. 5 of 1974.

Medebewind referred to the responsibility of Dati I and Dati II to carry out activities on behalf of the center. These activities did not necessarily belong to the central government. They could jurisdictionally be the functions of sub-national government. But the central government could appoint local authorities to perform these functions and would provide them with some resources. For this reason, these local authorities would be responsible to the appointing institution. This *medebewind* did not really correspond to the traditional idea of *medebewind* introduced during the Dutch government, where policies were set by the center and the regions were required to prepare local legislation to implement the policy.

Regional autonomy referred to the authority of Dati I and Dati II to manage their own household functions. As previously mentioned, the Law described regional autonomy as being “real and responsible” (Article 7). Real meant that the degree of autonomy given to regions would depend on their capacity to carry out the responsibilities transferred by the center. Responsible meant the regions had the obligation to help facilitate development in the regions, strengthen unity and political stability, maintain a harmonious relationship with the center and safeguard the process of national development.¹¹ With this new definition, the concept of “broadest autonomy”, put forward in the 1966 MPRS decision would no longer be referred to because it was feared that a “broadest autonomy” tended to create ideas which might jeopardise the unity of the country. As stated in the elucidation of the Law,

...the term “as broadly as possible” will no longer be used because past experience had shown that this term could result in tendencies which might jeopardise the unity of the Unitary State and this term is not in a harmony with the objective of regional autonomy based on principles outlined in the GBHN. The term “real and responsible

¹¹ See the Elucidation of Law No. 5 of 1974.

autonomy” should be made clear in further explanations (translated from the Elucidation of Law No. 5 of 1974).

The autonomous regions introduced by Law No.5 of 1974, therefore, did not suggest the creation of semi-independent Dati I or Dati II (Morfitt, 1986:59). The Law made it clear that regional autonomy was more an obligation than a right: an obligation to help facilitate the implementation of the central government’s development program.¹² Regions were authorised and obliged to organise and manage their own affairs, but in accordance with regulations determined by the central government (Article 7 of Law No. 5 of 1974). Local legislation as well as the procedures regional councils employ to carry out their tasks were prepared based on guidelines provided by the Department of Home Affairs (see Table 1). As Ateng Syafrudin (1991:4) points out, the concept of regional autonomy laid down in Law No.5 of 1974 differs from the concept found in the literature.

Law No. 5 of 1974 further stipulated that autonomy did not merely stress its democratic aspect but also the need to increase the efficiency and effectiveness of local governments, especially in the implementation of national development (point i of the elucidation of the Law). This indicates the government was more interested in achieving efficiency and effectiveness in regional government in implementing development rather than in the democratic aspects of autonomy. As Suyamto, one of law’s drafters, admitted later, Law No. 5 of 1974 was intentionally designed to be more oriented towards the implementation of national development (Suyamto 1991:).

As stipulated in Article 13 of Law 5 of 1974, regional government consisted of the regional head and the DPRD. While the regional head had executive power, the DPRD had legislative power. Neither the regional head nor the DPRD was superior to the other. In

¹² See Elucidation of Law No. 5 of 1974.

theory they would work together as partners in governing their region. However, Article 80 stated that, as a representative of the central government, the regional head was *penguasa tunggal* or sole administrator in his or her region, and therefore given the power to supervise all activities in his or her region. This article implies that the regional head was also expected to supervise the activities of the DPRD. This made the regional head in practice more powerful than the DPRD. The DPRD's position was further reduced by the fact that the regional head could not be discharged by the DPRD because the head was selected by the president or the Minister of Home Affairs (Articles 15 and 16). Although the rights to request explanations of, and to conduct inquiries into, executive decisions were granted to the DPRD by the Law, these powers could only be exercised over functions, which had been fully surrendered to regional government. Moreover, those rights could only be exercised according to procedures to be provided by the Department of Home Affairs (Article 29).

It seems the position of regional head was intentionally strengthened in the structure of regional government because the major concern was with efficiency and effectiveness of the regional government in implementing national development. As Bhenyamin Hoessain points out, the words "efficiency and effectiveness" were mentioned many times in the Law, while the word "democratization" appeared only once. This provides a clear indication that the Law was primarily designed for the promotion of efficiency and effectiveness in the regions, rather than for encouraging democratization. If democratization was the concern, Hoessain argued further, the position of the DPRD should have been made central, as it was in Law No. 1/1957.¹³ If the position of the DPRD had been central, the regional head would

¹³ Interview with Professor Bhenyamin Hoessain, a Lecturer at the University of Indonesia, in June 1997.

have been responsible to the DPRD. This system, however, would have complicated the process of decision making in the regions. As Leemans says,

efficiency, it is frequently and loudly proclaimed, requires restricting the participation of representative bodies (local councils) in the public policy making and especially in the execution of policy. This explains the hesitancy to introduce proper representative institutions with decision making-power in the region (Leemans 1970: 67).

Law No. 5 of 1974 obviously provided little decentralization because the law was primarily designed to establish a system of regional government that ensured political stability and efficient implementation of national development. The importance of political stability and economic growth to the military leaders of the New Order government, according to Pabottingi, was rooted in history. These two government goals were a direct result of the inability of parliamentary democracy to create a working political system and strong economy and the failure of guided democracy to strengthen the economy and produce a durable political system (Pabottingi 1995:247). Their experience made these leaders assume that these two objectives could only be achieved through tight control over all aspects of life. As Liddle says,

To sum up: in 1965-1966, the surviving leaders were those who had taken up arms against Muslim Guerrilla forces in the early 1950s, fought the regional rebellions led by their own junior officers in the late 1950s, and had been engaged in a struggle to the death with communists - and again with some of their junior officers - in the early 1960s. They had also witnessed the endless bickering of parliamentary politicians and the loss of control of the economy by the government - both representative democracy and Guided democracy. Put briefly, the lessons they learned from those experiences were the primal importance of establishing and maintaining, first, unity among themselves and, second, tight control over others, including most especially Muslims, regionalists, and communists. Without these fundamentals, neither national unity - the goal to which they had been committed since the 1945 independence declaration - nor economic stabilization and development - the crisis they now faced - could in their view be achieved (Liddle 1996: 184-185).

In addition to the dominance of the military in politics and in policy making, the increased role of non-party technocrats in the regime also contributed to the reestablishment of a more centralized decision making process. As Kuntjoro-Jakti points out, the planning model introduced by the technocrats during the 1970s required a system of centralized mobilization and allocation of state resources (Kuntjoro-Jakti 1981).

Chapter V

The Implementation of Law No. 5 of 1974

The implementation Law No.5 of 1974 provided more evidence that the law was not intended for promoting a decentralized system of government, but for the establishment of an effective centrally controlled hierarchical structure of government bureaucracy. Following the adoption of Law No. 5 of 1974, the Department of Home Affairs issued a number of regulations that greatly strengthened the position of the central government *vis a vis* the regions. Regional heads were appointed from those who were loyal to the central authority. The village head was made accountable to the district head and village administrators were made civil servants. This became a very effective mechanism for controlling the regions down to the villages.

At the same time, restrictions put on political parties had successfully reduced their influence in the national parliament and regional legislative councils. Extensive state surveillance and the controlled press effectively reduced opposition to central policies. The government's co-optation of local elites weakened regional demand for autonomy. Fiscal centralization and an integrated planning and budgeting mechanism made the regions dependent on the central government for their authority, policies and resources. Under such an environment, it was very unlikely that the regions could exercise discretionary power over their own affairs.

Strengthening Control through Regional Heads

Following the enactment of Law No.5 of 1974, the Minister of Home Affairs issued Regulation No. 10 of 1974 on the nomination of regional heads. In this regulation, it was stated that regional councils would conduct meetings to select three to five candidates for the regional head. The list of candidates should be sent to the Department of Home Affairs in the case of governors, or to the provincial governor in the case of *Bupati* or *Walikota*, at least three months before the term of the current regional head ended (Article 2 and 3). Following the submission of the list of candidates, a technical team, comprising the regional secretary and officials from the Department of Home Affairs and led by the chairman of the relevant regional council, would be formed to assess the qualifications of the proposed candidates based on criteria set by the Department of Home Affairs. This technical team, in consultation with the Minister of Home Affairs, would decide which candidates were eligible for election (Article 5 of Law No. 5 of 1974).

In practice, regional councils were instructed by the Minister of Home Affairs to propose five candidates. Two or three of them would be rejected by the technical team for failing to meet the criteria set by the Department of Home Affairs. In cases of disagreement among the members of the team on whether or not a particular candidate was qualified for the election, its chairman had the final word.¹ The result of the assessment was submitted to the Department of Home Affairs for formal approval. The list of the approved candidates was then sent back by the Department of Home Affairs to the relevant regional council. After receiving that list, the regional council would conduct a meeting to elect the regional head from the candidates who had been approved by the centre (Article 7).

¹ Many of the criteria set by the Department of Home Affairs were vague. For example, it is very difficult to assess whether a particular candidate is fully loyal to Pancasila and the 1945 Constitution.

The candidate who obtained the most votes, however, would not necessarily be appointed as regional head because Regulation No. 10 of 1974 enabled the central government to appoint another candidate. However, this practice was very unpopular and tended to be avoided. Instead, the government manipulated the election process to ensure that most votes went to the candidate preferred by the centre.

One example was the election of regional head of Kampar District, in Riau Province. A list consisting of five candidates was sent to the Department of Home Affairs in early 1996. The new Bupati was supposed to take office in April 1996, but the list was sent back to the DPRD in February 1996. According to the relevant authority, the rejection was due to the poor qualifications of the proposed candidates. However, many believed it was because none of the candidates endorsed by the centre was included in the list. To pave the way for the central government's favoured candidate, the Minister of Home Affairs then instructed Suripto, the Governor of Riau, to temporarily assume the position of Bupati of Kampar to allow him to intervene in the process of preparing the second list.

Between February and September, several informal meetings were held between the DPRD of Kampar and Governor Suripto. In November, the DPRD met to prepare a new list of candidates. But consensus between the political parties and the representatives of the military and Golkar in the council was difficult to reach. Despite opposition from the political parties, five candidates, two new and three from the previous list, were chosen by the DPRD chairman. The new list of candidates was sent to the Department of Home Affairs without bearing the signatures of representatives from the PPP and the PDI. In early December, the election took place and the winner was the central-sponsored candidate,

Beng Sabli.² On 12 December, the Minister of Home Affairs officially appointed him as Bupati of Kampar for the period of 1996 to 2001.³

The way in which the candidates were screened also caused regional councils to propose only those who were very likely to be accepted by the central government. In many cases, the choice of candidates was manipulated by the central government through the military and Golkar factions in the regional council. Sometimes, the criteria used were designed to disqualify other candidates. For example, one of the criteria introduced for the nomination of candidates for governor of Maluku in 1997 was knowledge and experience in regional development. This criterion was intentionally introduced to pave the way for Saleh Latuconsina, who had a Ph.D. degree in regional planning. At the same time, this criterion enabled the central government to disqualify Freddy Latumahima, preferred by many informal leaders in Maluku.⁴

Most members of regional councils interviewed by a team from Gajah Mada University admitted that the decision on who was going to be appointed had been made before the election took place (see Thoha, 1993). This person was popularly referred to as *calon jadi* or real or definitive candidate, while other candidates were only *calon pendamping* or accompanying candidates. During the election, the council had the obligation to transform the scenario into reality. In many cases, financial rewards were involved to make sure that most votes went to the *calon jadi*.⁵ Thus, the function of the regional council was limited to legitimizing the appointment of the centre's candidate.

² Beng Sabli was not proposed in the first list.

³ See Kompas, 27 April, 24 September, 16 November and 2 December 1996).

⁴ See Suara Pembaharuan and Kompas, November 1997.

⁵ Following the transfer of power from Suharto to Habibie in May 1998, several newspapers such as Kompas, Media Indonesia, revealed that Zuiyen Rais, the Walikota of Padang, West Sumatra, gave the members of the DPRD approximately Rp 400 million (US\$ 40,000) in order to win the election for his second term. The money was actually taken from the municipality funds. At the same time, the Bupati of Bantul in the Special

The election process did not always go smoothly. In September 1983, the incumbent governor of Riau (Imam Munandar), who was endorsed by the centre, was defeated by one of the accompanying candidates (Ismail Suko). Many Golkar representatives in the provincial council had been disappointed with the way in which their leaders in Jakarta had imposed the *calon jadi*. From the beginning, the provincial councillors had already rejected Munandar's candidacy for two reasons: his lack of leadership during his first term; and the local aspiration to have Colonel Syarwan Hamid, a native of Riau with a military background, as their governor.⁶ However, they were forced to accept Munandar as *calon jadi*. To express their disagreement, they voted for Ismail Suko.

The election result surprised everyone and made national headlines. While the central government was reluctant to appoint Ismail Suko, the governor elect, the provincial council of Riau urged the Minister of Home Affairs to accept the election result. Ismail Suko was intimidated and asked to withdraw but his supporters encouraged him to hold firm. He was then offered a position in the DPR. In addition, the central government also promised to appoint a native to the position of vice governor. After meeting with the Minister of Home Affairs in Jakarta, Ismail Suko was willing to accept the offer, provided those who voted for him were not recalled from the DPRD.⁷ The Department of Home Affairs agreed to the deal and Ismail announced his withdrawal. Imam Munandar was immediately made governor of Riau, and Baharudin Yusuf became the first native to

region of Yogyakarta, also admitted that he paid approximately Rp 1 billion through President Suharto's youngest brother to Yayasan Darmas, one of Suharto's foundations, in order to remain in his post for another five years.

⁶ Since its formation in 1957, the position of Governor in Riau province has always been occupied by army officers, almost all coming from other provinces.

⁷ Representatives of Golkar and Military in the national parliament and regional councils were supposed to support the central government policy. If they failed to do so, they could be recalled from those legislative institutions and replaced. The law allowed parties to replace members of legislatures whose performance was considered unsatisfactory.

assume the position of vice governor. Ismail Suko was later appointed a member of DPR to represent the province of Riau⁸

Another incident happened a few years later in Central Kalimantan. This time, the provincial council did not want to include Warsito Rasman, a senior official from the Department of Home Affairs, on the list of candidates for the governor of the province. This time, the central government tried to ensure that a similar incident did not happen. Negotiation took place between the provincial council and the central government. The DPRD finally agreed to put Warsito's name on the list of candidates. The central government managed to persuade the majority in the provincial council to vote for Warsito Rasman.

Concern for security provided justification for the appointment of military officers to the positions of regional head. At the beginning of 1966, 12 out of 24 governors were military officers, including in important provinces such as Jakarta, West Java, East Java, and North Sumatra. Military officers were also appointed as governors in resource rich regions like Riau, East Kalimantan, Irian Jaya and South Sumatra. After the 1971 elections, the number of military governors increased to 22 out of 26. In 1980, the number of military governors dropped slightly to 19 out of 27. The number of military bupati and walikota had also risen, from 147 out of 271 in 1969 to 157 out of 292 in 1980 (Crouch, 1978:244; Notosusanto, 1984:378-379).⁹ During the last few years of the New Order administration,

⁸ Most of the information used in this section was taken from "Refleksi", a special report in the Riau Pos, September 1998, on a seminar, which was conducted on the fifteenth anniversary of the Ismail Suko incident. During the seminar Ismail Suko and other participants like Prof. Tabrani Rab, Samad Thaha, Syed Abdullah Gazaly, and Thamrin Nasution, who were involved in the plot against the centre, were invited to explain what was going on during those days.

⁹ Following the coup, all PKI and PKI-linked regents and mayors were quickly replaced by military officers, not only in Java but also in the outer islands.

the appointment of military officers to the positions of regional head dropped slightly, especially at the district level.

As one of the criteria required that regional heads be chosen from among those who had experience in government, many regional heads, particularly at the second level of government, were chosen from the bureaucracy. In Riau province, for example, five of six regional heads at the second level were former *Sekwilda* (regional secretaries) in their regions. The fact that they were career public servants meant that regional heads often reflected bureaucratic interests.

Law No. 5 of 1979 on village administration, which abolished traditional village structures, also strengthened central control over the countryside. The law introduced a standardized structure for village administration. The boundaries of villages were also restructured. This reduced the influence of traditional leaders. Law No. 5 of 1979 also provided that village heads be appointed by the district head after a popular election. In addition, the village head was responsible to, and could be discharged by the district head. Moreover, the village administrators were made civil servants. As the civil servants were centrally managed, Law No. 5 of 1979 made the central government's chain of authority stretch down to the lowest level of administration (see Kahin, 1994).

Reducing the Power of Regional Councils

As previously discussed, Article Law No.5 of 1974 implied that the position of the DPRD was equal to that of regional head. In reality, more power was allocated to the regional head. As the central government's representative, the regional head was charged with general supervision over all activities taking place in his or her region, including the activities of the DPRD. The fact that he or she could not be discharged by the DPRD

enhanced the regional head's authority. Although the DPRD was given the right to question the regional head, request explanations and initiate inquiries on the way the regional head carried out his or her tasks, those rights could only be exercised in regard to the implementations of local tasks. Since local tasks made up only a small part of the regional head's activities, the room available to the DPRD for exercising its control over the regional head was also limited. Moreover, procedures for exercising those rights were to be drafted by the Department of Home Affairs. It was not until 1990 that these were made available.

While the DPRD had limited influence over the choice of regional head, the regional head in practice played a significant role in the selection of the DPRD chairman because the chairman was chosen from among those who could work "hand-in-hand" with the regional head. In addition, one fifth of DPRD's members were appointed by the regional head, while candidates from political parties for the local legislative body – like the national DPR - were screened before elections by bureaucrats and military intelligence officers and could be removed from the list of candidates by the regional head. This arrangement made the position of DPRD even weaker.

Article 38 of Law 5 of 1974 stated that the DPRD, together with the regional head, prepared the local legislation, including the annual budget. Theoretically, the bill could originate from either the executive or the legislative. In reality, the executive initiated most bills. In fact, an instruction from the Minister of Home Affairs in 1984 stipulated that the legal division in the governor's office prepare legislation. Even though the DPRD was still allowed to initiate bills, this instruction discouraged the DPRD from doing so. Moreover, the DPRD had fewer resources (financial, expertise and information) compared to the executive. In addition, the procedures outlined by the Department of Home Affairs made it difficult, especially for representatives from political parties, to exercise their right of

initiative. According to the Department of Home Affairs' policy, bills should be proposed through the chairman of the DPRD by at least five members from at least two fractions.¹⁰ The DPRD chairman should then send the bill to a special committee for screening. Only if the committee felt that the bill deserved attention would further discussion with the executive be scheduled. Knowing that the probability of passage was small, many members of the DPRD did not want to waste their time writing bills, but waited instead for proposals initiated by the executive.

Following the submission of a bill, the DPRD would usually call a series of meetings. The first session was a general meeting attended by all members. In this session, the initiator (regional head or his or her representatives) would explain in detail the background, objectives and content of the bill. The explanation was followed by a brief discussion where everybody was allowed to raise questions on general matters. A special meeting then followed the general meeting with members of related commission(s).¹¹ For example, members of the annual budget committee discussed a bill on the annual budget. Other members were allowed to attend, but were not allowed to raise questions. If these members wanted to request modification to the proposed bill, their request had to be made in writing, signed by at least three DPRD members, and handed through the chairman. The chairman then read their request in the following session.

During this meeting, amendments to the bill were commonly proposed by each fraction in the DPRD and the executive often made some accommodation. If the meeting ended in deadlock, the issues would be brought to the consultative team (*panitia*

¹⁰ The members of the DPRD were divided into 'fractions' or political groups – Golkar, the two other parties and the military/police group.

¹¹ DPRD members also sat on smaller commissions concerned with various policy areas.

musyawarah).¹² This team, which consisted of the chairman of the regional council and representatives of each political group, was empowered to look for compromise and make decisions on the final form of the bill. Its decision was then presented in the last plenary session. Since the consultative team had actually made the decision, this last session was intended only to formalize the DPRD's approval of the bill.

The executive always managed to get support from the DPRD for whatever bills they proposed. This was because the bill had been discussed with the military and Golkar fractions prior to the bill's submission to the DPRD. This meant that majority support for the bill in the DPRD had been guaranteed before the bill was proposed. It was not surprising that during the meeting the two dominant fractions argued for the bill. This practice (called *pembahasan setengah kamar*, discussion by half the house) had been effective in making the political parties, apart from Golkar, in the regional council powerless. Therefore, many analysts considered the DPRD only "a rubber stamp" established to legitimize policy introduced by the executive.

Moreover, the format of local legislation had also been standardized by the Department of Home Affairs through Government Regulation No. 14/1974, later replaced by Government Regulation No. 8/1983. This made legislation on the same subject but from different regions similar. As a result, local bureaucrats played only a limited role in the formulation of local legislation. This practice obviously undermined the autonomy of the regions.

Article 22 of Law No.5 of 1974 required regional heads to present a statement of accountability to the DPRD on the implementation of the regional budget. In response to the

¹² Several consultative teams were formed, such as for budget preparation, for assessing regional head's performance and for consultation on other issues. The members of each team represent the four fractions.

statement, members of the DPRD were given the right to put written questions to the regional head. Their questions were forwarded through the chairman and screened by a special team (*Panitia Khusus* or Pansus) prior to submission to the regional head. As a result, questions that might possibly offend the regional head were often deleted. Therefore, this right could not be effectively exercised. The DPRD could also request explanations from the regional head regarding his or her policies. But again, the procedures were quite complicated and members of regional council tended not to go through them. Instead, they simply invited officials to discuss matters with them.¹³

The DPRD was also empowered to conduct inquiries if it felt the policy of regional head conflicted with the interest of the people. However, the Department of Home Affairs had never issued procedures for such inquiries. DPRD's themselves did not dare demand that the central government make such procedures available or to initiate the formulation of such procedures.

As the above discussion makes clear, the DPRD was never able to function as a channel for the people's aspirations, or act as a check-and-balance to the regional head. Its inability to perform its functions was not due to the poor quality of the legislators, as argued by many bureaucrats, including General Rudini when he was the Minister of Home Affairs. In fact, Law No. 5 of 1974 made the legislative body subordinate to the regional head. Concern about the need to empower DPRD only came up later, a few years before the end of the New Order administration.

¹³ According to an official from Kabupaten Bandung, they often bribed the members of DPRD so that during the meeting they were not too critical of what the bureaucrats were doing.

Fiscal Centralization and Regional Dependency

In 1968, the government started centralizing the fiscal system. The centre collected most revenues, and redistributed part of its revenues to the regions through a system of intergovernmental transfers. These transfers were aimed at helping the regions to meet their expenditure responsibility. Since more than 90 percent of government domestic revenues were raised by the central government, there had been a mismatch between revenue means and expenditure needs at different levels of government (see table 5.1). At the same time, the central transfers were also aimed at eliminating the problem of horizontal fiscal imbalance. Differences in resource endowments and economic opportunities across the regions had also caused disparities in regional generation of revenues relative to regional expenditure needs. Per capita 'own' revenues ranged from a low of Rp. 2,250 in Central Kalimantan to a high of Rp. 75,179 in the Special Territory of Jakarta in 1990/1991 (see table 5.2.).

The central transfers to the regions took two forms: the Inpres (*Instruksi Presiden*, Presidential Instruction) programs for development activities and the SDO (*Subsidi Daerah Otonom*, subsidies for autonomous regions) for routine expenditures. The Inpres funds were divided into two categories: the General Inpres funds and the Specific Inpres funds.¹⁴

The first general Inpres program was introduced in 1969/70 for the villages. Grants to villages (Inpres Desa) were lump-sum allocations to each village-level unit in the country. These grants were small but relatively unconstrained and could be used by local authorities on infrastructure projects they chose. But the grants were intended only for purchasing constructions materials, and the local population should provide the labour. The

¹⁴ Inpres is abbreviation of *Instruksi Presiden* (Presidential instruction). This word is used because the central transfer for development programmes was made through a presidential instruction.

total amount of the Inpres Desa increased from Rp 24.9 billion in Repelita I (1969-74) to Rp 869 billion in Repelita V (1989-94). In Repelita V, these grants accounted for 7.6 % of the total grants to the regions.

In 1970/71, the general Inpres program was expanded to all districts (called Inpres Dati II). These grants were aimed at providing employment opportunities and badly needed infrastructure facilities in the rural areas, and allocated on a per capita basis. But during the 1980s, some small and isolated areas outside Java were given an extra amount to compensate for their high construction costs. These funds were divided into fixed (*ditetapkan*) and discretionary (*diarahkan*) elements. The fixed element comprised obligatory expenditure on roads, bridges and irrigation, and the discretionary element could be spent on development projects chosen by the local authorities, subject to some general guidelines (Booth, 1995:188-189; Ranis and Stewart 1994:46; Davey, 1979:80). The amount of the central funds allocated for Inpres Dati II increased from Rp 46.4 billion in Repelita I to Rp 2,077 billion in Repelita V. In Repelita V, Inpres Dati II accounted for 18.2% of the total central grants to the regions.

In 1974, the general Inpres grants were also expanded to all provinces (called Inpres Dati I). These grants were intended to replace the old system where the provinces had received a share of their export-tax revenues, which had favoured the Outer Islands. The Inpres Dati I allocations were based on the number of population, size of cultivated area and length of roads. But, having been criticized for favouring the populated provinces in Java and Sumatra, in the mid-1980s, a minimum lump sum grant was granted to every province, which caused the per capita allocation to be higher in small provinces in the eastern islands. Similar to Inpres Dati II, Inpres Dati I was also divided into two parts. About one third of the total was spent on projects specified by the central government, mainly for maintaining

roads, bridges and irrigation networks, which were falling under the responsibility of provincial government. The rest was discretionary spending, though the central authorities should approve the projects. The total amount of Inpres Dati I increased from Rp 83.1% in Repelita I to Rp 2,119.5 billion in Repelita V. This accounted for 48.4% of the total central grants to the region in Repelita I and 18.5% in Repelita V.

The Specific Inpres funds were introduced since 1969. These funds were earmarked by the central government for specific uses, such as building roads and bridges, primary school, health centers, markets, or reforestation programme. The purpose was strictly specified. For example, local authorities can decide on the location of a primary school financed by the specific grant, but not on whether to spend the money on a school or other educational needs. The specific grants increased from Rp 17.2 billion in Repelita I to 6,376.4 billion in Repelita V.

The SDO (*Subsidi Daerah Otonom*, Subsidies to the Autonomous Regions), which were first initiated in 1968, were meant to finance salaries and other recurrent expenditures of local government officials, and for operating costs of some public facilities such as elementary schools and health care centers built under the Inpres Programs. These grants were paid through the Department of Home Affairs to the provincial governments. Payments in respect of kabupaten and kotamadya staff were then passed on to the lower level through the routine expenditure budget.

The size of the grant was determined annually by the actual salaries and allowances paid for the officials in post and the estimated budget needed for newly recruited teachers and medical staff for the new schools and health centers built under the Inpres programs. The proposals were submitted by the provinces to the Department of Home Affairs before the budgetary process and the Department of Home Affairs negotiated other increases in

total establishment with the Directorate General of Budget in the Department of Finance. From 1968 to 1994, the SDO had been increasing at 26% per annum in real terms, mainly due to the expansion in education and medical personnel. The total amount of SDO increased continually from Rp 25.5 billion in 1968 to 6,796.1 billion in 1993/94 (see table). In 1995/96, it represented (46%) of total regional government revenue and 17.8% of the total national routine expenditures. In 1968, approximately 82% of the total SDO funds were spent for operational routine expenditures and the remainder 18% for the costs of the personnel. In 1993/94, the proportions were reversed. About 86% of the total amount of SDO was allocated for personnel.

The SDO scheme clearly had many advantages for regional government. It enabled staff to be employed all over Indonesia on equal conditions and without regard to variation in local fiscal capacity. It provided a regular and secure source of income to meet regional government's commitments to their employees (Davey, 1979: 63). A great problem, however, was the lack of objective criteria for allocating posts to provinces. Allocations were basically based upon the additional funds available in the budget of the Department of Home Affairs for the SDO. There was no overall manpower plan. There was abundant evidence that many of the local *dinas* were actually overstaffing, especially with administrative staff. Another problem related to equity. Despite the fact that its own revenue was so high, salaries and allowances for all civil servants working for the Special Province of Jakarta were fully subsidized by the centre. Such a policy had encouraged regional governments to recruit more and more staff.

In addition to Inpres funds, the central government also allocated funds from the national budget through its technical departments for expenditures falling within regional government responsibilities. These subsidies did not pass through the regional government

budgets or accounts; the provincial *dinas* drew the funds directly from the bank accounts of the Department of Finance. The main departments concerned were Public Works and Agriculture. Public Works spent on roads, water supply and irrigation through the provincial *dinas*. Proposals came from the *dinas* and were appraised by relevant ministries. The final decision, of course, rested with the Central Government. Sometimes, sectoral projects also required contributions from provincial budgets. These activities represented the implementation of the *medebewind* principle.

Local authorities had little discretionary power over the use of the central grants. In the case of SDO, the Department of Home Affairs made detailed allocations. For the Specific Inpres funds, the projects were jointly prepared by the Department of Home Affairs, the National Development Planning Board and related sectoral ministries based on information provided by the regions. The General Inpres funds, which were given in the form of block grants, were still subject to central guidelines and/or quotas in terms of type of projects (Ranis and Stewart, 1994:51). Village-level General Inpres funds may have been the only unconstrained funds available to local authorities. However, these funds accounted for a small portion of central transfers to the regions.

Subsidies allocated through sectoral departments (sectoral budget) were usually spent in the regions for financing responsibilities falling within the central jurisdiction. The projects were usually developed and implemented by ministerial field offices based on guidelines or targets set by the centre. These activities were supposed to be coordinated with activities carried out by units under local government. However, as MacAndrew points out, local planning bodies were frequently not informed about nationally funded projects in their province or district (MacAndrew, 1986: 61).

In addition to central grants, regional governments also raised their own revenue (*Pendapatan Asli Daerah*, PAD) from a variety of local taxes, local charges for services (*retribusi*), receipts from local *Dinas*, net profits from local enterprises, and other sources. Law No. 11 of 1957 on local taxes enabled regions to introduce local taxes, as long as the objects were not being taxed by the Central Government. Moreover, Law No. 12 of 1967 on local charges also made it possible for regions to levy a wide range of local charges or fees for services provided by regional authorities.

At the provincial level, there were about seven taxes which had been effectively collected, but the most important was a tax on transferring the ownership of motor vehicles. In addition, the provincial governments collected more than 50 charges. Their contribution to PAD was quite important. In 1990/91, provincial PAD accounted for 25.05% of the total provincial revenues.¹⁵

Kabupaten and kotamadya collected a wide range of taxes, but the most significant levies were those on entertainment (*Pajak Hiburan*), hotels and restaurants (*Pajak Pembangunan I*, Development Tax No. 1), advertisements and slaughtering. At kabupaten or kotamadya level, charges were also levied for a large number of services and permits, such as fees for shops and market stalls, building permits, medical services, parking, refuse collection, and the use of bus stations and taxi stands. For kotamadya, a small part of their revenues was also coming from the profits of local enterprises, such as hotels, cinemas, and water supply authorities. In 1990/91, local taxes and charges accounted for 13.8% of the total spending at the second level of government.

In addition, the provincial and local governments also received some revenues from shared taxes administered by the central government (property tax, fees from the

¹⁵ Data were taken from the Ministry of Finance, 1997.

exploitation of the forest). In 1990/91, the total receipts from shared taxes made up 6.73% of the total provincial revenues, and 12.41% of the total revenues of all Dati II. In fact, the biggest part of local revenues at Dati II came from shared taxes.

Locally generated revenue and shared taxes represented the most unconstrained funding at all levels of regional government. These funds could be spent without much interference from the central government. However, own revenue made up only a small portion of regional budgets. This was because many local taxes yielded very small amounts and some, like that on non-motorized vehicles, were declining in value. Moreover, the expansion of central receipts from the corporate tax on oil during the oil boom period brought a significant increase in the amount of grants to regions because the central government continuously transferred a fairly constant proportion of its revenue to regional governments.¹⁶ The increase in the amount of the central grants eventually caused the proportion of PAD to total regional spending to drop from 44% in 1975/76 to 27.4% in 1983/84. These figures show how dependent the regions were on grants from the centre.

During the period of the oil boom (1974-1984), central grants to the regions increased significantly because the central government transferred a fairly constant proportion of its rising revenue to regional governments. In 1975/76, central grants accounted for approximately 56 percent of the total regional government spending. In 1983/84, the proportion increased to 72.6 percent (Ranis and Stewart, 1994:49).

The continuing growth in central government subsidies to the regions, according to Booth (1986: 79), undoubtedly had many benefits. It had allowed provincial and district levels of government to implement much needed infrastructure projects. It had created

¹⁶ Receipts from the corporate tax on oil, which accounted for 14.3% of central government revenue in 1969, rose to over 50% of revenue between 1975 and the mid-1980s, with a decline in recent years. The central grants increase from 14.5 in 1969/70 to 18.2% in 1988/89 out of the total central government revenues.

employment for unskilled and semi-skilled construction workers, and led to a rapid growth in the construction industry in the country. However, the expansion of central government aid to the regions had raised concern about the heavy reliance of the regions on the central government subsidies and also decisions from the centre. In fact, the Inpres programs had enabled the central government to intervene directly in such regional matters as village, kabupaten, kotamadya and provincial infrastructure development, development of community health centers, primary schools and markets.

Recentralization of Government Functions

As previously discussed, a clear division of power and responsibility between different levels of government is necessary for successful decentralization. Unfortunately, Law No. 5 of 1974 did not provide a clear indication of what functions were to be decentralized and to which levels. But it implied that as many responsibilities were to be transferred as possible to Dati II, and that the number and types of functions to be devolved would differ from one Dati II to another, depending upon their capacities to carry out those responsibilities.

Assessments of Dati II capacities were not initiated until the late 1980s. Even when the criteria were introduced through the Government Regulation No. 45 of 1992, they still did not help the government indicate what responsibilities were to be transferred to each Dati II. The issuance of such criteria 18 years after the enactment of Law No. 5 of 1974 provided central ministries with a strong reason for not devolving their power and responsibilities to regional authorities.

Moreover, a clear policy on how the transferred responsibilities were to be financed by regional authorities was never issued. Law No. 5 of 1974 implied a new policy on

central-regional fiscal relations would be introduced to allow self-governing units to finance activities under their responsibility. The Law also stipulated that this policy would be regulated by another law. But the Law on fiscal relations was only enacted after the fall of the New Order government. This made regional government unenthusiastic to demand additional responsibilities for fear that those responsibilities would have to be financed through their own revenue. It was not surprising if 20 years after the enactment of Law No. 5 of 1974 only a few additional responsibilities had ever been transferred from the centre to the regions.

Actually, when the autonomous governments were established in the 1950s, these units were granted 10 to 14 types of responsibilities over which they could exercise autonomy. During the early years of the New Order administration, most of these functions were informally recentralized. Central ministries through their field offices at the provincial and district levels performed most local services. Law No. 5 of 1974 permitted the central ministers to establish their field offices at regional levels. The expansion of the central ministries' organizations reduced the role of local governments in the provision of local services. Local authorities were only given the opportunity to develop projects to be funded through local budgets. Decisions on what could be proposed and how projects should be carried out were still made within the guidelines provided by the centre. In many cases, local projects were designed to support the implementation of central programs.

Centralization of Planning and Budgeting Mechanism

As previously mentioned, the system of government in the New Order Indonesia was characterized by concentration of authority to make decisions in the central bureaucracy. The GBHN, which was supposed to be prepared by the MPR every five years,

was actually drafted by the Secretary General of the Defence and Security Council (*Dewan Pertahanan dan Keamanan Nasional*) for the President. This draft was discussed between high-ranking officials before it was proposed by the President to the newly formed MPR resulting from general elections. After discussion in the MPR, the GBHN was then – always unanimously – enacted. The dominance of presidential appointees and Golkar in this institution secured the central government's interests.

Based on GBHN, the government prepared its Five-Year Development Program (*Rencana Pembangunan Lima Tahun*, Repelita). This program was formally introduced through a presidential decree. The Repelita was further elaborated in the national annual budget (*Anggaran Pendapatan dan Belanja Negara*, APBN), which had to be approved by the DPR. Based on the allocations in APBN, each central agency designed its programs and projects (LAN, 1998).

The National Development Planning Board (Bappenas) played a key role in the process of planning and budgeting in Indonesia. This agency coordinated all central agencies in formulating Repelita. While the Department of Finance determined the amount of budget available each year, the National Development Planning Board made the allocations to all central agencies and regional governments. Staff of this Board was involved in the detailed budget preparations at ministerial level. The Board also set policy on foreign aid and determined which projects were qualified to be included in the “blue book”, a document that described projects proposed for foreign aid. With this authority, the National Development Planning Board became a very powerful agency *vis-a-vis* other central agencies and regional governments. Its authority to allocate funds had been a source of corruption because most agencies often bribed the National Development Planning Board's staff in order to maximize public funds allocated to their office.

At regional level, provincial and district development planning units (Bappeda) played a leading role in the preparation of Regional Five Year Development Plan (*Rencana Pembangunan Lima Tahun Daerah*, Repelitada) and provincial and district annual budgets. Provincial and district annual budgets were proposed to provincial and district councils respectively for approval. In addition, provincial governments sought approval for their budgets from the Directorate General of Government and Regional Autonomy (*Pemerintahan Umum dan Otonomi Daerah*, PUOD), in the Department of Home Affairs. District budgets had to be approved by the governor. Through its approval, the central government was able to control all government activities taking place at the local level. This approval process also created room for collusion and corruption. It was quite common that provincial governments bribed appropriate officers in order to speed-up the approval process.¹⁷

The process of formulating Repelita was characterized as top-down. As Rohdewohld (1995:48) notes, the process took place within the bureaucracy with minimum participation from the public and few inputs from the lower levels of Government. The planning process was duplicated at provincial and district levels of administration with the formulation of Repelitada. In addition, the format of Repelitada was standardized by the Department of Home Affairs. Therefore, they tended to be the same everywhere, regardless of the differences in characteristics and needs in the regions. In fact, the existence of Repelitada was just for the sake of formality.¹⁸

¹⁷Based on interview with an official of the Department of Home Affairs involved in this process.

¹⁸In addition to Repelitada, each province or district had its *Pola Dasar Pembangunan Daerah*, a physical plan for regional development. Unfortunately, this document was rarely up-dated. As a consequence, its contents did not seem to be an accurate to guide to the development activities in the region.

On the contrary, the process of annual budget preparation was designed to be bottom-up.¹⁹ According to the Minister of Home Affairs's regulation No. 9/1982, the process had to begin with villages. In March or April, a village meeting was held to discuss village proposals for development projects. These proposals were then reviewed at kecamatan level by related staff, under the guidance of the district officials. In May or June, a development-coordinating meeting (*Rapat Coordination Pembangunan*, Rakorbang II) took place under the chairmanship of the district Bappeda. This meeting made important decisions about which projects were rejected, which were to be funded through local budgets and which were to be proposed to the higher levels of government. This meeting was usually supervised by the provincial Bappeda and attended by staff from Kanwils. In July/August, a similar coordinating meeting (Rakorbang I) was held at the provincial level. In this meeting, decisions were made about projects to be funded by the provincial budget and those to be proposed for the national budget -- both Inpres and sectoral allocations. This meeting was attended not only by provincial and local officials, but also by officials from the National Development Planning Board, the Department of Home Affairs, and some technical departments. Proposals for central funds were proposed through the Department of Home Affairs to the National Development Planning Board and related sectoral departments for the next year's annual budget.

The results of the bottom-up planning process did not necessarily reflect the needs of local people. One reason was because local authorities had little discretion over the central grants. Even the general Inpres funds, which were given in the form of block grants, were

¹⁹ This approach was developed based on the experience of a number of area development projects initiated in the late 1970s and early 1980s by a number of donor agencies, such as AUSAID sponsored projects in East Java, UNICEF sponsored projects in East Java and South East Sulawesi, GTZ sponsored projects in West Sumatra and East Kalimantan. Those projects aimed to promote local participation and strengthen the capacity of local governments in planning and implementation of development projects

subject to central guidelines. There was only a small room for local initiatives as all project proposals were prepared based on very detailed guidance provided by the central government. Non-compliance with central guidance would lead to a reduction in the central transfers. Another reason was the tendency of lower levels of government to propose small-scale projects, which were sometimes seen as unimportant by the central governments. Consequently, only a few were accepted. The rejection often disappointed local officials. But their dependency on the central transfers made them accept whatever decisions were made by the centre.²⁰

The role of representative bodies at national and sub-national level in the formulation of development programs was very limited. The DPR was not involved in the decision on Repelita, and nor were the DPRD I and DPRD II in Repelitada. Even though annual budgets had to be approved by legislative bodies, these institutions, in fact, did not have much room to play significant roles. Their dependency on resources from the executive caused them to agree with what had been proposed by the executive.²¹

Decentralization Following the 1984 Financial Crisis

Concern about decentralization was growing when world oil prices decreased significantly in 1984. Reduction of central revenues forced the central government to make cuts in budgetary expenditures. But this budget cuts primarily affected the development budget. While the central development budget fell by 7.2 percent, regional development grants were reduced by only 3.4%. The drastic decrease in the central development budget

²⁰ Local governments could still implement locally initiated projects from their own revenues. But revenues raised by local governments were usually very small.

²¹ Based on my own experience dealing with budget preparation in the Ministry of Public Works (1983-1990).

prompted the idea of transferring part of the responsibility for financing public services to the regions.

In response to the significant decrease in budget allocations to central ministries, some of them tried to share the financial burden of financing public services with local authorities. In 1985, the Integrated Urban Infrastructure Development Program (IUIDP) was introduced on the initiative of the Department of Public Works in some provinces. This program aimed at shifting some responsibilities for financing urban infrastructure to regional authorities. At the same time, the Department of Health also drafted a plan to transfer responsibility for primary health care to the regions. This program, later called the Health Project III (HP III), was launched in 1987 in two provinces, East Kalimantan and West Nusa Tenggara. Both programs were financially supported by donor agencies. Unfortunately, the programs were mainly concerned to increase local capacity to operate and finance capital investment for public services. Nevertheless, they were successful in improving the capacity of local staff in planning and implementing projects in related sectors and to some extent allowing the regions to develop their own approaches to their specific problems (these two programs are discussed in detail in chapter 7).

At the same time, concern about decentralization had also increased in the Department of Home Affairs. In fiscal year 1984/85, the Centre for Research and Development (Bali bang) of the Department of Home Affairs, with the assistance of Gajah Mada University, initiated a study to prepare a concrete plan for the implementation of Article 11 of Law No.5 of 1974, which required the transfer of authority for providing public services to the Dati II level. The result of the study, presented in the following year, suggested that more responsibilities should be gradually transferred from both the centre and Dati I, based on the capacity of each Dati II to handle additional responsibilities. The

study also recommended a set of criteria to be used to measure the capacity of Dati II. In the following year, nine universities, including Gajah Mada University, were hired to assess the capacity of all Dati II in Indonesia. The result, however, was not available until 1991. Despite the fact that the assessment was still being conducted, the Centre for Research and Development of the Department of Home Affairs drafted a government regulation on implementing decentralization at the second level of government. This draft was submitted to the office of the State Secretary for presidential approval in 1989. But the draft was rejected as inadequate and sent back to the Department of Home Affairs.²²

Following the drop in the central revenues from oil, several measures were introduced to provide incentives for revenue efforts at the provincial and local levels. As Anne Booth points out,

Regional fiscal reliance on the centre might not have appeared to matter while the centre had large amounts of funds to disburse, but it clearly matters in times of increased budgetary stringency. With the fall in oil revenues, in money terms, in 1984/85 and the decline expected to continue in the balance of the Repelita IV period, there is a pressing need, already widely recognized by the government planners, both to increase non-oil government revenues, and to reduce the degree of regional fiscal dependency on the centre. These objectives can only be achieved by encouraging both provinces and sub-provincial levels of government to increase their revenue effort (Booth, 1986:96).

In 1985, a new property tax (Law No. 12 of 1985) was introduced by the Department of Finance for the purpose of improving the efficiency of its collection and its revenue potential. This is a shared tax between the three different levels of government. Even though the setting of rates, assessment of liability, and collection of this tax are the responsibility of the central government, most of the revenue from property tax accrued at the second level could be spent freely by local authorities. Up to 2000, this tax was the largest source of local

²² The concept of regional autonomy proposed in the draft law was too general.

revenue for the Dati II, even though it actually accounted for only 6 percent of local government resources.

In 1987, the Department of Finance introduced a World Bank-sponsored program called Municipal Planning and Management System (SPMKD). Its objectives were to introduce medium-term financial planning at local government level; to improve the financial management and budgeting system; and to install a proper revenue reporting and control system. At the same time, the Department of Home Affairs (Director General of PUOD) also initiated a program called *Manual Administration Pendapatan Daerah* or Mahatma (Guide for the Administration of Regional Revenues). This program was intended to help regional governments to identify local taxpayers and to determine their tax liability. This program was first introduced on a pilot basis in five sites, and has now been installed in more than 100 Dati II. This program was financed through regional budgets. It was clear that SPMKD and Mapatda were duplicating each other. Therefore, since 1994, SPKM was integrated into Mapatda.

To maintain the level of development in the regions, regional authorities and regional enterprises were also encouraged to borrow money from international institutions such as the Asian Development Bank, IBRD, and OECF. For this purpose, in 1987/1988, a facility known as the Regional Development Account or RDA, located in the Department of Finance, began operations. Although it started making loans to regional governments and their enterprises in 1989, this institution was not formally established through a decree of the Minister of Finance until September 1991.

In 1988, a draft law on fiscal relations to replace Law No. 32 of 1956 was also discussed in an inter-ministerial meeting in the National Development Planning Board. This draft originated from the Department of Finance. This draft proposed that the existing fiscal

system be maintained, but greater discretion over the central grants be given to the regions.²³ It was proposed that the central grants be given the form of block grant. This proposal eventually met with strong resistance from other parties. To those who argued for fiscal decentralization, the idea of centralizing major taxes was seen as inconsistent with their vision of decentralization. But to those who were involved in the allocation of regional development funds, there was fear that greater regional discretion over the use of central grants might reduce their power over fiscal flows to the regions. It was not surprising that they tried to maintain the existing subsidy scheme, which they regarded as already well-established (Gafar 1995:55; Smoke and Lewis 1996:1287).²⁴ The draft law was finally discarded.

At the same time, Sarwono Kusumaatmadja, the State Minister of the Utilization of the State Apparatus (Men. PAN), launched a program called *Otonomi Daerah* or Regional Autonomy, as part of a package to improve the performance of the civil service (Lembaga Administrasi Negara 1997b: 278).²⁵ To implement this program, an inter-departmental team was formed, consisting of senior officials from the State Ministry for the Utilization of the State Apparatus, office of the State Secretary, Department of Home Affairs, National Institute of Public Administration (Lembaga Administrasi Negara or LAN), and National Board for the Administration of Civil Servants (Badan Administrasi Kepegawaian Negara or BAKN). However, due to limited funds its activity was limited to conducting Forkompanda (*Forum Komunikasi Pendayagunaan Aparatur Daerah* or Communication

²³ Main source of revenues were centrally managed and revenues were redistributed through a system of inter-governmental transfer.

²⁴ Information was also obtained from Mr. Pakpahan of the Ministry of Finance in an interview in 1997.

²⁵ Eight programmes for improving the performance of the Utilization of the State Apparatus were: 1) implementing self supervision (Pengawasan Melekat); 2) Job Analysis; 3) increasing the number of functional positions; 4) improving the quality of leadership; 5) streamlining the procedures for administering government staff; 6) improving the quality of public services; 7) improving the information system for government administration; and 8) implementing autonomy at Dati II.

Forum for Improving the Performance of Local Government Apparatus) in every province, to discuss the idea of decentralization at the second level of government.

Despite the tendency of each central agency to allocate part of its budget for decentralization projects, coordination among the initiating agencies was lacking. Each party tended to go its own way to maximize the achievement of its own goals. The National Development Planning Board was more concerned to take better account of different regional needs in formulating central projects, than in handing over the projects to sub-national governments. The Department of Finance was more concerned with strengthening local revenue sources, increasing the importance of loans relative to grants for capital financing, and restructuring the grants system to give autonomous regions more discretion over the use of funds. The Department of Home Affairs seemed interested to have as many responsibilities as possible and to have funds transferred from the sectoral ministries to regional authorities, without any intention of reducing its control over decentralized activities. Sectoral departments were more interested in strengthening the capacity of their field offices to assume responsibilities falling into their jurisdictions, rather than decentralizing those responsibilities to local authorities (Smoke and Lewis, 1996). The fragmentation of power and responsibilities became the major hindrance for coordination.

The DPOD, which was supposed to steer the process of decentralization, did little to bring the initiating agencies together to form a consensus on how decentralization should be pursued.²⁶ It seemed that this body was not really designed to be a forum for discussing central-regional issues on a broader basis. Neither representative from sectoral ministries

²⁶ *Dewan Pertimbangan Otonomi Daerah* or DPOD (Advisory Council for Regional Autonomy) was set up in 1975 through Presidential Decision No. 23/1975. This body was entrusted with: a) establishing autonomous regions; b) dissolving autonomous regions; c) transferring additional functions from central to regional governments; d) withdrawing functions previously transferred to the regions; e) adding to regional financial resources including the transfer or sharing of central taxes; f) changing the structure of financial balance; and g) other issues related to regional autonomy (Article 2 of the Presidential Decree No. 27/1975).

nor from regional governments was included in its membership.²⁷ Up to 1990, no effort was ever made to bring together sectoral ministries and regional governments to exchange ideas on how decentralization policy should be pursued. Instead of the DPOD, it was the State Ministry of the Utilization of the State Apparatus that initiated the pilot project in 1995 and led the negotiations with sectoral departments (see chapter 6).

The involvement of donor agencies also made it difficult to introduce genuine decentralization, which required gradual institutional building and reduced central government control over the use of the funds in the regions. Most donors seemed to be more interested in the physical progress and financial disbursement of the projects than in the impact of projects on strengthening regional autonomy. To ensure that aid was properly and timely spent, donors tended to demand greater involvement from central ministries in planning and implementing projects. Moreover, some donors tended to establish client relationships with specific ministries or divisions within ministries who shared similar objectives (see chapter 7). These relationships reinforced the tendency of departments to specialize and compete with each other (Smoke and Lewis, 1996:1286-7). In an environment in which different parties independently initiated key projects, compliance with decentralization objectives was difficult to expect.

Decentralization at the Second Level

The implementation of a number of decentralization projects finally attracted the attention of the DPR. In late 1989 the DPR raised a question with the president on the

²⁷ This body, led by the Minister of Home Affairs, included the Coordinating Minister for Economy and Industry (Menko Ekuin), the Coordinating Minister for Social Affairs (Menko Kesra), the State Minister for The Utilization of the State Apparatus (Menpan), the Minister of Defence, the Minister of Finance, and the State Secretary.

progress of decentralization. In response to DPR, in his speech of 17 August 1990, President Suharto stated that,

To increase people's capacity, creativity and initiatives, to face the era of take-off, from now on we have to give a larger role to Dati II.

Dati IIs are those who know the needs and aspirations of the people. Efforts to increase deconcentration and decentralization should be in conformity with the spirit of the 1945 Constitution and the progress of development we have achieved (Kompas, 10 August 1990).

Suharto's speech was seen by some analysts as showing his intention to implement the decentralization policy more seriously. Suharto's statement encouraged General Rudini, who had just been appointed as the Minister of Home Affairs in 1988, to begin seriously implementing decentralization at the second level of government.

Rudini found out that most of the responsibilities, which had been transferred to the regions in the fifties and sixties, were actually held at the provincial level. Rudini believed that to enhance the autonomy of second-level government, provincial assemblies should be abolished and provinces should be transformed into administrative units. To discuss the possibility of implementing his idea, Rudini asked the Centre for Research and Development of the Department of Home Affairs to organize a seminar.

The seminar was conducted on 8 and 9 October 1990 and attended by most high-ranking officials in his ministry. A number of experts on local government from nine state universities were also invited. In his key-note speech, Rudini argued that his idea to abolish Dati I was not in conflict with the 1945 Constitution, because in Article 18 it was stipulated that the Indonesian territory was to be divided into provinces, and each province to be divided into smaller units. But it did not say provinces should be autonomous units. (Syafudin, 1991: 108).

In response to Radii's argument, many participants doubted whether the abolition of Dati I would promote autonomy at the second level. Professor Sri Soemantri from Padjadjaran University, for example, was very concerned about the political consequences of the disappearance of provincial councils (DPRD Tk. I), which he considered as important political arenas for channelling the people's aspirations. S. Pamudji from the military think-tank, Lemhannas (Lembaga Pertahanan Nasional), also doubted that Rudini's idea could be easily implemented. The abolition of Dati I, according to Pamudji, would require fundamental changes in the current laws and regulations. Instead of abolishing Dati I, he urged the government to clarify the following issues: types of responsibilities to be transferred; procedures for transferring; timetable; transfer of staff; and detailed arrangements for local revenues. In addition, he proposed that the government conduct a pilot project so that its policy could be evaluated and corrected prior to its real implementation.

Dr. Ichlasul Amal from Gajahmada University supported Pamudji's idea. Amal also reminded the government not to introduce a uniform policy for the regions because uniformity was one of the characteristics of bureaucratization that strengthened central control over regions. Thirty years under an authoritarian regime created the tendency to standardize all administrative procedures in local as well as central bureaucracy.

Many participants also opposed the idea of autonomy at the Dati II level for they saw Dati II as too small to become an effective autonomous unit.²⁸ With regard to this issue, Suyamto, one of the drafters of Law 5 of 1974, suggested that existing Dati II be regrouped so that their sizes would be more or less equal to the former residencies. He also proposed

²⁸ As discussed in the chapter III, during the 1950s, to gain support, the Central Government made small principalities Dati II. Many of them were too small in terms of area, population and natural resources to support their activities.

that in the future autonomous units should be based on the former self-governing units that existed under indirect rule during the colonial period (Syafudin, 1991:109). Rudini, however, did not see amalgamation as politically feasible.

The seminar ended with the conclusion that further study was needed to define at what level the autonomous units should be established. While Dati I was too large and remote from the community, Dati II was too weak financially and managerially to be the sole level of autonomy. Rudini's idea to grant autonomy to one level of regional government appeared to be politically difficult.

Meanwhile, as mentioned above, to provide a framework for defining what responsibilities could be given to a particular second level of government, the Centre for Research and Development of the Department of Home Affairs, with the assistance of nine universities, including Gajah Mada University, conducted a study on the capacity of second-level government in Indonesia. An assessment was made of 292 Dati II based on criteria developed earlier by Gajahmada University. However, when the results of the study were presented to related ministries in 1991, the Department of Home Affairs was overwhelmed with criticism.²⁹ One criticism related to the method and criteria used to assess local capacity. Many indicators used in the study were not really relevant to measuring local managerial capacity.³⁰ As later admitted by Dr. Warsito of Gajah Mada University, who helped design the study, the choice of criteria was quite arbitrary.

²⁹ Dr. Susiati Hirawan from the Ministry of Finance and Dr. Paul Smoke from HIID-Jakarta, were among those who strongly criticised the method and criteria used in the study.

³⁰ For example, *Pendapatan Asli Daerah* (PAD, locally generated revenues) could not be expected to reflect local financial capacity or local effort in mobilizing resources because a larger portion of PAD comes from property tax and other shared taxes, which were administered by the central government. Also, the ratio between the number of local staff and total population produced a misleading result if used for measuring the administrative capacity of the local authority. The use of GRDP (gross domestic regional product) and demographic characteristics such as population density and rate of growth was also regarded as irrelevant by some experts for assessing the capacity of local government to assume more responsibilities.

Another criticism related to the categorization of Dati II, which did not provide guidance for the allocation of responsibilities. Based on the study, second-level governments were grouped into four categories: M1 (the least capable) to M4 (the most capable). But of 292 local authorities assessed, more than half fell into category M3 (see table 5.2) that included both *kotamadya* and *kabupaten*. But these two forms of local government were different in their characteristics. Even *kotamadya* differed in terms of size and geography. The question was whether or not the same responsibilities should be given to all Dati II, which fell into the same category (see Table 5.1.).

Indeed, some officials involved in the rating process were quite aware of problems associated with their results. Therefore, in the final report of the study it was suggested that categorization be used only in defining the number of functions to be transferred. Types of functions to be transferred to a particular Dati II, according to this report, should be determined in a further study (Departemen Dalam Negeri 1991:79).

In 1992, an inter-ministerial task force was formed and charged with developing an instrument for measuring the capacity of local governments. This task force consisted of officials from the State Ministry for the Utilization of the State Apparatus, Department of Finance, Department of Home Affairs, Ministry of Public Works, National Development Planning Board, and the National Institute of Public Administration (LAN). Other sectoral ministries involved in local service provision also participated in the task force whenever their input was required.

The idea to base the evaluation effort at LAN emerged in discussions among some members of DPOD, whose deliberations exposed the reasons why other ministerial coordination efforts had failed. LAN was selected to chair the task force because of its

perceived neutrality. Unlike all ministries, LAN had not been directly involved in planning and implementing regional development programs (Smoke and Lewis, 1996:1289).

The method developed for the study was based on a simple numerical index. Local government capacity was assessed based on their performance in the following functions: development planning and programming; resources mobilization; budgeting and management; and project design. The assessment was done using quantitative indicators as well as qualitative appraisals. The procedures were implemented on a trial basis in the provinces of West Nusa Tenggara, North Sulawesi and East Java. The result of the exercise seemed promising, even though the methodology still needed refinement. In the following years, the assessment was expanded to include other provinces. The result was reported by Dr. Kristiadi, the Chairman of LAN to DPOD. However, he failed to have the method officially endorsed by this Council.

Government Regulation No. 45 of 1992

Despite the fact that methods to assess local government capacity were still being debated, the Centre for Research and Development of the Department of Home Affairs insisted on introducing a regulation on decentralization at the second level. The draft was sent to the Office of the State Secretary in early 1992. This draft proposed that as many responsibilities as possible be decentralized to Dati II. The number and types of responsibilities decentralized to each Dati II would be based on their individual capacities, as determined by the Department of Home Affairs. To allow Dati II to carry out those responsibilities, the central and provincial governments would also decentralize the budget, staff and facilities associated with the responsibilities being transferred. Those responsibilities could be withdrawn if local governments were later seen to be incapable of

managing them. Despite opposition from a number of central agencies, the proposal was enacted as Regulation No. 45/1992 a few weeks after its submission to the President's office.³¹

This Regulation required that sectoral departments define which functions they would transfer to Dati II, based on the stipulated certain criteria.³² This regulation also provided that the determination of functions to be devolved to specific Dati I or Dati II to be based on the 'capacity' of the region. This capacity would be evaluated according to procedures to be provided by the Department of Home Affairs. But the procedures, as mentioned above, had yet to be designed. The regulation also stipulated that functions to be assigned to Dati II could be transferred directly or indirectly through Dati I. However, the mechanism for transferring the functions was still to be prepared by the Department of Home Affairs.

Following the issuance of Government Regulation No. 45 of 1992, the Department of Home Affairs, in cooperation with the State Ministry for the Utilization of the State Apparatus, initiated a series of two-day seminars on regional autonomy at LAN Campus in Jakarta. These seminars were intended to allow high-ranking officials from different ministries and lecturers from universities to exchange ideas on the newly introduced concept of autonomy at the second level of government. Some vice governors and

³¹ Following submission of the draft regulation, a meeting between officials from the Office of the State Secretary and those from the State Ministry of Government Apparatus, Ministry of Finance, the National Development Planning Board, LAN, and BAKN was held at LAN. During the meeting, some officials expressed their disagreement with the content of the proposed regulation. Many considered the concept of autonomy at the second level, as outlined in the proposal, as unclear and difficult to translate into action.

³² Criteria for defining the transferred functions were as follows: 1) functions which have been undertaken by a region; 2) functions relating to immediate direct public interests which are heavily influenced by regional environmental conditions; 3) functions that generate public participation or are characterized as a public responsibility; 4) functions that need capital intensive in their implementation; 5) functions that add to regional income and have potential to generate local revenues for the region; and 6) functions that require implementation decisions and actions to be undertaken immediately.

provincial secretaries were also invited to the seminars. From these seminars it was recommended that if the government wanted to see decentralization policy effectively implemented, it had to do the following: 1) conduct more dialogue to allow all government officials from the central as well as local level to have the same perception about what decentralization and local autonomy were; 2) formulate a clear division of responsibilities between different levels of government; 3) prepare a procedure for devolving the responsibilities to regional governments; 4) prepare a policy on inter-governmental fiscal transfer that could allow the second level of government to finance responsibilities transferred to them; and 5) help the second level of governments improve the capacity of their staff (Lembaga Administrasi Negara, 1997).

In the mean time, Rudini also sought broad support for the implementation of Government Regulation No. 45 of 1992. To encourage their involvement, he expanded the membership of DPOD and transformed this body into a forum, which allowed all related parties to exchange ideas and experiences on decentralization. By doing so, he expected that consensus could be formed on how this regulation was to be implemented. Unfortunately, the enactment of Regulation No. 45 of 1992 coincided with the end of Rudini's term as Minister of Home Affairs. Rudini's successor, Major General Yogi S. Memet, did not seem interested in continuing the implementation of Rudini's agenda. Under Yogi's leadership, DPOD met infrequently.³³ As a consequence, consensus on how these key actors were to play their role was never really made. It was not surprising that other related parties finally showed "wait-and-see" attitudes towards the implementation of the new regulation.

In early 1992, the Federal Republic of Germany expressed its intention to provide a five-year technical support program to the government of Indonesia to develop a more

³³ Interview with Dr. Sondiamar, a former assistant to Rudini.

comprehensive approach to decentralization. In the MOU between the two governments, it was stated that a technical team from GTZ (*Deutsche Gesellschaft Fuer Technische Zusammenarbeit*) would be placed under the National Institute of Administration (Lembaga Administrasi Negara, LAN) because LAN, according to President Decree No 20 of 1991, was responsible for the formulation and dissemination of policy on public administration in Indonesia.³⁴ In relation to this, LAN, in cooperation with DSE, another German agency, initiated a series of three-week visits by groups comprised of high-ranking officials from different ministries and different levels of government to Germany. These visits were intended not only to broaden their knowledge of decentralization issues, but also to pave the way for future consensus among related parties on how decentralization should be carried out in Indonesia.³⁵

While LAN continued organizing the visits, senior officers from the Department of Home Affairs demanded that the German technical team be attached to the Department of Home Affairs. They argued that their ministry had been given the mandate to coordinate the implementation of decentralization through Presidential Decision No. 23 of 1975 on DPOD. This kind of competition was common among different units in the government because having control over such a team meant also increasing their power over others. Even divisions within the Department of Home Affairs itself competed with each other for control over the German technical team. In 1993, the National Development Planning Board decided the technical team would be attached to the office of the Secretary General of the Department of Home Affairs.

³⁴ LAN is a non-departmental agency. Its chairman is directly responsible to the president but its activities are under the coordination of the State Minister for The Utilization of the State Apparatus.

³⁵ I accompanied the first group to Germany.

In mid 1993, with the cooperation of the Department of Home Affairs, the GTZ team organized a three-day workshop at Carita, West Java, to formulate an action plan for helping Indonesia to implement its decentralization policy. All key actors were invited to the workshop and their commitment was expected to be easily obtained. Unfortunately, most left for Jakarta right after the opening ceremony. Their staff who remained was not given any authority to make commitments to any decisions made during the workshop. Therefore, GTZ's intention to produce an action plan with support from key parties had to be forgotten. Moreover, staff from the Department of Home Affairs dominated the workshop. As a consequence, most activities proposed were for the sake of this ministry. Following the workshop, Dr. May, the GTZ team leader, realized that most of the activities proposed would strengthen centralization. But he also appreciated there may be political consequences if he refused to implement what had been formulated. He finally allowed the DPOD steering committee to veto the proposal.³⁶

Following the workshop, other attempts were made by the team to help the government develop and implement a more integrated program of decentralization. However, its position under the Department of Home Affairs and the Carita experience made other related parties reluctant to get involved in GTZ technical assistance activity. In the end, this team only served in an advisory capacity to divisions within the Department of Home Affairs.

When Major General Silalahi was appointed as State Minister for Government Apparatus in 1993, he decided to push ahead with the decentralization program. In 1995 he initiated a pilot project on decentralization in 26 Dati II. In addition to improving local

³⁶ I represented Dr. Kristiadi of LAN in the Carita workshop. From the beginning I warned Dr. May of the possibility that the proposed action plan might conflict with the decentralization objectives. He, however, appreciated the problem a few weeks later when he discussed the issue with Dr. Kristiadi.

autonomy, the project aimed to improve the quality, and expand the coverage, of public services at the local level. Unfortunately, Silalahi's concept of decentralization corresponded more with the concept of administrative decentralization. Instead of enhancing local autonomy, his project strengthened central intervention through its decentralized administration. Moreover, this project also resulted in a rapid increase in the number of units under the Dati II. Expansion in the structure of Dati II had caused the bureaucracy involved in the delivery of public services to become even more complicated. (see chapter 6).

Despite its failure from the point of view of decentralization, the pilot project was expanded to 68 districts in 1998. However, the effort was abandoned when General Suharto was toppled from the presidency. Hartarto, a bureaucrat who replace Silalahi, saw that the concept of autonomy introduced by the project was not in line with the new Habibie government's policy on regional autonomy.

Why Did Implementation Fail to Achieve Autonomy?

From the previous chapter, it was clear that the government never really intended to promote regional autonomy, and therefore; the framework laid down in Law No. 5 of 1974 was not designed for the establishment of semi-independent regional governments. Nevertheless, this Law required that the responsibilities for public services be transferred to the district authorities. But the New Order government never made real efforts to implement such a policy. Regulation that clarified what functions were to be decentralized was only made 20 years later. It was not surprising that the transfer of authority to regional levels never took place during the New Order government.

In the mean time, the government issued a number of regulations aimed at establishing an effective central control over the regions. The positions of regional heads were strengthened, and regional heads were made the sole administrator, accountable to the centre. Fiscal system was centralized and regional governments were made financially dependent on the central transfer. All of those policies finally turned regional administrations into an integral part of the central bureaucracy, responsible for implementing policies set by the centre.

To pave the way for centralization, the government also tried to weaken demand for regional autonomy. The activities of political parties were restricted and their influence in the national as well as regional legislative bodies was reduced. Extensive state surveillance and the controlled press effectively reduced opposition to central policies. The government's co-optation of local elites weakened regional demand for autonomy.

Table 5.1. Distribution of Dati II according to Capacity

Capacity	No. of Dati II	Percentage
M-1	1	0.34%
M-2	89	30.48%
M-3	182	62.33%
M-4	20	6.85%
Total	292	100.00%

Source: Departemen Dalam Negeri, 1991, p.23a.

Note:

M-1 : the least capable local government

M-4 : the most capable local government

Table 5.2. Vertical Fiscal Imbalance in 1990/91

(Percentage)

Own Source Revenues	Revenue share ³⁷	Expenditure share	Surplus/deficit
National	96.1	83.1	13.0
Sub national	3.9	16.9	-13.0
Provincial	2.8	9.3	- 6.5
District	1.1	7.6	- 6.5
All Levels	100.00	100.00	0.0
Own Source and Shared Revenues			
National	94.3	83.1	11.2
Sub national	5.7	16.9	11.2
Provincial	3.5	9.3	- 5.8
District	2.2	7.6	- 5.4
All Levels	100.00	100.00	0.0
Own Source, Shared Revenues and Transfers			
National	82.2	83.1	-0.9
Sub national	17.8	16.9	0.9
Provincial	9.9	9.3	0.6
District	7.9	7.6	0.3
All Levels	100.00	100.00	0.0

Source: Shah et al., 1994. Intergovernmental Fiscal relations in Indonesia: issues and reform options, World Bank Discussion Report, p. 50.

³⁷ Including development receipts (programme and project aid)

Table 5.3. The Central Government Transfer by Types from 1989/90 to 1993/94
(in billion Rupiahs)

	1989/90	1990/91	1991/92	1992/93	1993/94	Average annual Growth Rate
General Purpose INPRES:	706.0	1,058.4	1,434.7	1,867.1	2,202.8	21.6
INPRES Villages	112.0	190.6	249.9	326.5	390.2	23.3
INPRES Dati II	270.0	391.8	590.8	825.1	1,029.6	26
INPRES Dati I	324.0	486.0	594.0	715.5	783.0	16.8
Specific Purpose INPRES:	535.9	1,262.8	1,842.1	1,282.2	2,623.8	32.8
Primary School	100.0	369.5	521.7	669.1	747.9	39.5
Health	122.2	177.8	268.9	339.5	747.9	27.2
Reforestation	16.2	33.1	74.6	97.3	104.3	29.7
Local roads	225.0	472.5	685.1	825.6	1,373.3	41.5
Provincial roads		69.5	206.9	289.7	347.6	85.9
Market Development	3.0	3.0	2.1	3.0	5.0	0.8
SDO	3,551.2	4,102.4	4,554.0	5,269.3	6,028.9	
Total Transfer	4,793	6,424	7,831	9,419	10,855	16.9
DIPs	7,368	4,067	6,160	7,640	8,720	15.9
Total Transfer and DIPs	12,161	10,491	13,991	17,059	19,575	14.4
Population (in 000s)	175,396	179,194	183,159	187,113	191,194	2.1
Transfer per capita (in Rupiahs)	27,327	35,847	42,754	50,331	56,777	14.4
Transfer and DIPs per capita (in Rupiahs)	69,335	58,544	76,386	91,159	102,383	12.0

Source: Department of Finance, 1997.

Chapter VI

The Pilot Project: Decentralization initiated by the State Minister for the Utilization of the State Apparatus (Men. PAN)

Up to 1995, the process of decentralization had at best been very slow. The legal framework for implementing decentralization at the second level of government, Government Regulation No. 45, was issued in 1992 but was still insufficient for steering the implementation of such a policy. Interested in seeing the concept implemented, the State Minister for the Utilization of the State Apparatus (Men. PAN) Major General T. B. Silalahi decided to initiate a breakthrough. In 1995 he introduced a two-year pilot project, which aimed to enhance the autonomy of the Dati II by transferring authority to implement more functions to the district level. At the same time, he expected this transfer to improve efficiency and effectiveness in the provision of public services by district authorities.

This chapter discusses the concept of autonomy introduced by the pilot project, its implementation, and its impact on the autonomy of the 26 participating districts. Most information used in this chapter was obtained from interviews with key actors who had been involved in the development and/or implementation of the pilot project, at the central, provincial and district levels. I also interviewed scholars who had contributed to the decentralization debate in Indonesia. Field observation of the implementation of the project was also made in two districts - Kabupaten Bandung in West Java, and Kabupaten Sidoarjo, in East Java.

Based on the information obtained during fieldwork, it was clear that the project failed to reach its objectives. Despite the transfer of responsibility to carry out a number of

government tasks to the district level, this measure did not increase the autonomy of Dati II. This failure was particularly due to the concept of decentralization introduced by the project. This concept was based on the framework put forward in Law No. 5 of 1974. Under this law, decentralization was limited to the transfer of administrative responsibility from a higher level to a lower level of government. Therefore, responsibility to perform certain functions was transferred to the district authorities, but their autonomy in decision-making was still constrained by guidelines from both the Department of Home Affairs (Depdagri) and technical/sectoral departments, such as the Department of Agriculture (Deptan), the Department of Health (Depkes), and the Department of Public Work (Dep. PU)). The perception that decentralization was only the transfer of administrative responsibility within the bureaucracy also made the government ignore the importance of strengthening the political role of local councils. Therefore, instead of promoting local autonomy, the project simply made district authorities the extensions of the central bureaucracy and only instruments for the implementation of national development programs.

The project was also unsuccessful in improving the efficiency of the provision of public services by local government. The expansion of local government organization made bureaucracy in the provision of local services even more complicated, and increased the cost for services. In addition, the failure of the project to provide district authorities with enough funds to finance the transferred tasks encouraged the district heads to raise a variety of local taxes and charges. This tendency had been strengthened by the fact that the performance of participating districts was assessed based on growth in their own revenues. As a result, the project was blamed for aggravating the problem of the 'high-cost economy' that had long plagued the country.

Background and Objectives

In response to growing concern about decentralization, the Government finally addressed this issue in the 1993 GBHN (*Garis Besar Haluan Negara* or the Broad Guidelines of the State Policy). Under the chapter on regional development, it was stated that

“Initiatives and active participation of the community, together with the regional planning boards, in regional development need to be encouraged, development control and coordination intensified, and the functions of regional legislative bodies improved as the manifestation of increased participation of the community in the development drive. The managerial ability of the regional administration apparatus should be improved to achieve more efficient utilization of regional potentials, and to implement real, responsible and dynamic regional autonomy“(GOI 1993:78).

When Major General Silalahi was appointed Men. PAN in 1993, he perceived that his mandate to enhance the efficiency and effectiveness of the state bureaucracy was to include ensuring the effective implementation of decentralization. He was, however, quite disappointed to find that his office had neither the mandate nor resources needed to coordinate the implementation of this agenda.¹ But as a member of DPOD, he could influence the implementation of the decentralization effort. Moreover, as Men. PAN, his position *vis a vis* sectoral ministers was more influential than that of the Minister of Home Affairs. With his authority to determine the size and structure of all government agencies at all levels of government and set policies and issue approval on recruitment, promotion, remuneration and retirement for civil servants, he believed he could easily mobilize support from all agencies at the central as well as regional levels.

To implement the idea of autonomy at the second level of government, Silalahi proposed that all field of offices of central government departments (Kandep) and branch

¹ The State Ministry for the Utilization of the State Apparatus (Men. PAN) is responsible for assisting the President in preparing policies on civil service. This office had few staff and no development budget.

offices of provincial governments (Cabang Dinas Tingkat I) be abolished and their activities be transferred to relevant dinas or other units under the autonomous Dati II. To enable these units to perform additional tasks, he also proposed that all personnel, facilities and budgets associated with transferred responsibilities be decentralized to those units. Silalahi also expected that the abolition of Kandep and Cabang Dinas Tingkat I would reduce the bureaucratic chains in the provision of public services and make them more efficient and effective.²

To test his concept, he proposed that a two-year pilot project be conducted in five districts. To ensure compliance with his plan, he chose five districts headed by military officers for the pilot project. As a major general, he believed none of those military bupati and walikota, whose ranks were below his, would ever reject his orders. To follow-up his idea, he also appointed Ir. Gustav Pandjaitan, the former Director of the Jakarta Water Enterprise (PAM Jaya), as his special assistant for regional autonomy.³

His intention to implement a pilot project on decentralization was also expressed in the DPOD meeting. Even though the detailed features of the project were still to be worked out, most members expressed their support for the idea. Following the meeting, a supervisory team for autonomy, consisting of Men. PAN, the Minister of Home Affairs, Minister of Finance, and Head of Bappenas (the National Development Planning Board), was established at the central level within the framework of DPOD. In addition, a technical team, consisting of high-ranking officials from related agencies, was also set up at the central level to prepare the concept in detail. Silalahi wanted implementation of the project to be formally led by DPOD.

² Information was obtained from, among others, Mr. Silalahi, in March 1995, and Gustav Pandjaitan, one of Silalahi's assistants, in April 1997.

³ The appointment of Gustav Panjaitan to the position of special assistant on Regional Autonomy made some officials sceptical because he had neither relevant education nor related experience.

Silalahi reported his proposal to the president in mid-1994. To his surprise, President Suharto instructed him to introduce the project not in five, but in 26 districts, one in every province except in the Special Territory of Jakarta. Dr. Dono Iskandar from the Department of Finance suggested in one meeting that the pilot districts be chosen from those Dati II with demonstrated proper managerial capacity. For this purpose, he urged that the State Ministry for the Utilization of the State Apparatus (Kantor Men. PAN) use the rating results made by LAN in determining where pilot project should be conducted. For practical reasons, however, Silalahi's Deputy Wirawan chose districts located near provincial capitals.⁴

The plan to conduct a pilot project in decentralization was later presented to the 1994 governors' conference. Silalahi requested each governor, except the Governor of the Special Capital Territory of Jakarta, to nominate one district in his province to participate in the pilot project on decentralization. The Minister of Home Affairs through his decision No. 105 of 1994 made the formal identification of those pilot districts not long after the conference (see table 6.1).

As usual, the decision was centrally made without consulting with the concerned district authorities. The district officials, however, felt obliged to implement the central government's program and make it successful. Some district chiefs even said they were proud of being selected to participate and ready to carry out the project. They seemed happy to be trusted to perform activities previously performed by Kandep and Cabang Dinas, and to be given control over resources previously allocated to those units. With more resources,

⁴ Dr. Iskandar was a member of the technical team for regional autonomy. He made his suggestion in a meeting held to discuss the central grant system with a team from the University of Birmingham. Since the meeting was attended by most of the members of central technical team on regional autonomy, such an opportunity was also used to discuss the preparation of the pilot project on decentralization. I attended the meeting to represent Dr. Kristiadi of LAN.

they said, they were sure they could improve the efficiency and effectiveness of local service provision in their regions.⁵

As part of the preparations for the implementation of the pilot project, the Department of Home Affairs also issued Instruction No. 45 of 1994 on the establishment of Technical Teams for Autonomy (*Tim Teknis Otonomi*) in the 26 provinces and in their pilot districts. These teams were expected to coordinate negotiations between the central and regional governments, prepare governors decisions related to the implementation of the pilot project, and report to the regional head as well as the central government on progress of the implementation of the pilot project. In addition, a technical meeting was held in Jakarta from 5 to 7 January 1995, between the Department of Home Affairs and the heads of the 26 pilot districts. This meeting was followed by another meeting with the district secretaries (*Sekwilda Tingkat II*) from 19 to 21 January 1995.

Meanwhile, a government regulation, which would serve as the legal foundation for the implementation of the pilot project, was also being drafted at Silalahi's office. Silalahi expected this regulation could be issued prior to the formal launching of the project, which was planned for 17 April 1995. All departments were informed about the plan. Most promised to support the implementation of the project with some conditions. Some departments, such as Education and Culture, Trade, Transmigration, Information, and Religion, however, openly opposed the project, particularly the proposal to abolish Kandep. The launching of the project was postponed to allow negotiations to take place between Silalahi's office and each department. While other departments finally agreed, after calling

⁵ See interviews with some Bupati in Prisma April 1995:49-59.

for some revisions, the Minister of Information and the Minister of Religion refused to take part in the project.⁶ Despite their refusal, Silalahi proceeded with his plan.

To obtain support from outside the bureaucracy, Silalahi also organized a meeting with scholars in related areas from several prominent universities. The meeting took place in his office in the first week of April 1995. Dr. Dorodjatun Kuntjoro-Jakti and Dr. Amir Santoso from the University of Indonesia, and Dr. Amin Rais, Dr. Affan Gafar, and Dr. Sofyan Effendi from Gajah Mada University were among those who attended the meeting. As he expected, all scholars welcomed Silalahi's initiative, though some expressed concern about the lack of control over district heads. Affan Gafar saw decentralization as part of the effort to introduce good governance in Indonesia but was concerned about the possibility that additional power to the regions would make regional heads behave even more like "little kings" in their regions. Similarly, Dr. Amir Santoso worried about the possible abuse of power by regional heads due to the absence of an effective system of checks and balances at the local level. Dr. Amin Rais, who argued that the current system of regional government provided regional heads with both the opportunities and incentives for corruption, suggested that regional councils be empowered to control regional heads. Under the current system, he continued, only those with the quality of a *Nabi* (Prophet) could resist the temptation of corruption. He, therefore, argued the country should rely on a good system rather than good men.⁷

In response, Silalahi said he shared these concerns and agreed that controls over regional government bureaucracy should be strengthened. But when the regulation was

⁶ These two departments had unique role during the New Order period. While the Department of Information through its field offices aimed to building and maintaining support for the regime from the grass-root level, the Department of Religion through its field offices claimed that it prevented communism from spreading in rural areas.

⁷ I attended the meeting to represent Dr. Kristiadi of LAN.

introduced a few days later, the need to empower the DPRD was not addressed at all. The government, unlike the scholars, did not seem to consider the empowerment of local councils as important. The reason was that decentralization had been long perceived by most bureaucrats as merely administrative. As Sumitro Maskun, Director General of Regional Autonomy (PUOD) of the Department of Home Affairs at that time, emphasized again and again, the concept of decentralization in Indonesia was limited only to the transfer of administrative responsibilities from the central to local bureaucracies.⁸

At the same time, *Kompas* daily, a leading national newspaper organized a discussion to welcome the implementation of the pilot project. Some scholars, bureaucrats and district chiefs were invited to the discussion.⁹ One of the issues raised during the discussion concerned the type of decentralization to be pursued. On this issue, the scholars tended to advocate the creation of semi-independent units that could manage their own affairs with minimal intervention from the centre. In contrast, the bureaucrats tended to focus only on the transfer of administrative responsibilities to local bureaucracy.¹⁰

Another important issue raised was about the dependency of local revenue on transfers from the central and provincial government. It was argued that such dependency be reduced in order to make the transfer of authority more effective in enhancing local autonomy. For this purpose, it was also suggested that the government reform fiscal relations to provide Dati II with sufficient revenue to finance their activities, and restructure the boundaries of Dati II by amalgamating small districts to give them enough natural wealth to support their activities. Rudini, who participated in the discussion, argued that the

⁸ See *Kompas*, 11 April 1995 and Prisma, April 1995:60.

⁹ The participants included Professor Hendra Esmara of Andalas University, Dr. Dorodjatun Kuntjoro-Jakti of the University of Indonesia, General Rudini (former Minister of Home Affairs), Sumitro Maskun of the Department of Home Affairs, Djabanten Damanik, the *bupati* of Simalungun, and Edhi Sanyoto, the *bupati* of Sidoarjo.

¹⁰ See *Kompas*, 11 April 1995.

amalgamation of small districts would not be feasible in the short run because it could have political as well as financial implications, such as reducing the amount of grant money per capita received by the new combined districts.

As discussed in Chapter V, the Central Government provided small regions with higher grants per capita because Inpres grants were given as a lump sum (fixed amount) to small regions. If those small districts were merged, the new combined districts would receive smaller grants per capita from the centre because the grants would no longer be given as a lump sum, but calculated based on population. District authorities could be expected to reject this policy. In addition, amalgamation would also result in many government positions being abolished. Reducing the number of *eselon* positions in local governments could be expected to weaken local bureaucrats' political support for the central government.¹¹ During the New Order government, appointments to the positions of head of *dinas* or divisions in local government had been an effective means for ensuring bureaucratic loyalty to the New Order leaders. Moreover, any reduction in the number of districts would also result in a reduction in the number of seats available for Golkar cadres in the local councils. Seats in local councils had been another type of reward to the loyalists. As Sumitro Maskun later admitted, the fear of losing local political support was, in fact, the real reason behind the government's objection to the amalgamation of small districts.¹²

On 24 April 1995 Government Regulation No. 8 of 1995 on the transfer of part of the central and provincial responsibilities to 26 Dati II pilot was issued. The following day, President Suharto formally launched the pilot project. At the same time, the president also

¹¹ *Eselon* positions are position such as heads of directorates, divisions, or sub-divisions. The holders of *eselon* positions have the authority to make decisions.

¹² *Republika*, 15 January 1999.

declared 25 April as "regional autonomy day". In his speech during the ceremony, Suharto stated that,

In implementing regional autonomy, the goal we wish to achieve is not uniformity. Uniformity regarding all aspects of our national character is already assured by the unitary nature of our nation. In regional autonomy, the focus of our attention is on the effectiveness, efficiency and harmony of governance in relation to the socio-economic and cultural conditions of the regions. This means that in its implementation opportunities must be given to variation and differences, for example between agricultural districts in Java and Sumatra and maritime districts of Maluku. This can be seen as a realization of our nation's motto "unity in diversity". (taken from GTZ 1997:4).

A few weeks later, in a speech to a leadership course organized by Lemhannas (*Lembaga Pertahanan Nasional*, or the National Resilience Institute), the think-tank of the Department of Defence and Security, Suharto also stressed that Indonesia must reassess the role the central government played in the country. As he said, "in an increasingly fast changing and interdependent world, there will be no place for a centralistic government, where all decisions are made by the central administration".¹³

Government Regulation No. 8 of 1995

Suharto's speech of 25 April 1995 implied that the intention of decentralization was not uniformity, but the ability to respond to local preferences in serving the public. This idea, however, was not really reflected in Government Regulation No. 8 of 1995. In fact this regulation introduced standard policies, programmes and procedures to the 26 pilot districts. This made some scholars consider the project an exercise in rhetoric. Professor Muhammad Ali of Hasanudin University, in a seminar conducted in Jakarta a few days later, even accused the central government of trying to buy time by introducing the project because he believed the government did not intend to make those districts autonomous.

¹³ Jakarta Post, 11 May 1995.

Government Regulation No. 8 of 1995 provided that all Kandep and Cabang Dinas located within the 26 pilot districts be abolished and their activities transferred to related Dinas Tingkat II (service units under the district authorities). It also stated that activities, which could not be devolved, should be conducted in the form of *medebewind* (Article 5). The regulation, however, did not stipulate how the transfer should be made. Neither did it indicate how the devolved functions were to be distinguished from those of *medebewind*. The regulation also stipulated that the concerned authority could withdraw the transferred tasks if the regions did not properly perform them. Again, no criteria were set on how those agencies would assess the performance of the district government in carrying out transferred tasks.

To enable them to carry out the transferred tasks, district authorities were allowed to form new service units (dinas). But the formation of those new dinas should be in accordance with guidelines prepared by the Department of Home Affairs. These guidelines could be expected to limit the room for local initiative in designing the organizational structure. Moreover, in establishing new dinas, district authorities were to seek approval from Men. PAN.

To strengthen the capacity of district authorities, the regulation also required that the personnel of Kandep and Cabang Dinas be transferred to the pilot district authorities. Their ministers, in the case of staff from Kandep, and governors in the case of staff from Cabang Dinas, should make the necessary secondments. In making the secondments, ministers and governors were required to consider the concerns of the Department of Home Affairs and the National Board for the Administration of Civil Servants (*Badan Administrasi Kepegawaian Negara* or BAKN). This implied that these two agencies would have some influence over the choice of who would be seconded. The regulation also stated that the

concerned minister or governor could terminate the secondment, provided that approval was obtained from the district chief prior to the termination.

Staff seconded to the district level, according to Article 8 of the regulation, should be granted at least the same level position as they previously had in their former offices. This stipulation was intended to encourage staff from the central and provincial staff to work for the district government. Theoretically, this policy meant that most of the new *eselon* positions created, as a result of the formation of new dinas, would be filled by seconded staff, as they were generally more experienced, especially in technical matters. However, authority for appointing lower-level *eselon* IV and *eselon* V positions was given to the district chiefs, who tended to appoint local staff rather than the transferred staff.

The governor would make the appointment of the dinas chief from candidates proposed by the district chief. In nominating candidates, the district chief was to seek approval from related technical departments. This was because the technical or sectoral departments were responsible for the training and education of provincial and district staff in technical matters.

It was also stipulated in the regulation that the transferred functions be financed by the local budget. To allow local budgets to cover these additional expenditures, Regulation No. 8/1995 provided that funds previously allocated to Kandep and Cabang Dinas be shifted to the district level. The reallocation, according to the regulation, should start in fiscal year 1995/1996. The amount reallocated would be at least the same as the budget allocated to Kandep and Cabang Dinas in fiscal year 1994/1995. To implement this provision, the National Development Planning Board, together with the Department of Finance and the Department of Home Affairs were instructed to prepare details.

In addition to the budget, sectoral departments and provincial governments were also obliged to transfer their assets, such as office buildings, furniture and machinery, which had previously belonged to the Kandep and Cabang Dinas. These transfers, according to Government Regulation No. 8 of 1995, should be done in accordance with regulations in force.

Government regulation No. 8 of 1995 also empowered central departments to guide and supervise the implementation of the transferred tasks by the district authorities. Sectoral departments were charged with responsibility to guide and supervise the dinas in technical matters while the Department of Home Affairs was responsible in administrative affairs. In addition, the regulation also stipulated that the progress of the pilot project was to be evaluated by the central government after two years of implementation. Indicators and procedures for evaluation were to be defined by the central government.

It was clear from the stipulations in Regulation No. 8 of 1995 that the main concern of the central government was to transfer responsibility for providing local services from the Kandep and Cabang Dinas to units under the district government and to ensure that those units were able to perform the transferred functions according to the central government's wishes. Functions that were not performed according to the central standard would be recentralized. Thus, the focus was on strengthening the capacity of local bureaucrats. The issue of local participation in decision-making did not seem to be important and the role of local councils in channelling local aspirations tended to be ignored. Therefore, no effort was introduced to empower the DPRD.

Affan Gafar from Gajahmada University, for example, felt sceptical that the project would bring greater regional autonomy. He was concerned about the absence of any attempt to empower local councils in the project. He implied that regional autonomy would not

work without strong DPRD's. He regretted the use of Law No. 5 of 1974 as the basis for developing the project because the concept of regional autonomy put forward in this law was quite misleading. In Law No. 5 of 1974, the DPRD was in effect made part of the local bureaucracy. This law, he argued, should have been long replaced (Prisma, April 1995). Similarly, Rudini, the former Minister of Home Affairs and now chairman of a private think-tank, the Institute for Strategic Studies, also criticized the project's emphasis on strengthening of local bureaucracy. He was also concerned about the government's tendency to undermine the importance of local participation in decision-making. He argued, "The quest for regional autonomy cannot be separated from that of democracy, which requires greater public participation in all decision-making processes".¹⁴

Actually, the need to encourage public participation had always been emphasized by central officials. They, however, tended to perceive participation as the material contributions populations make toward projects initiated by the government, in the form of labour, money or land for physical infrastructure. The idea of having the DPRD play a leading role in making decisions over the transferred functions was seen as a strange practice by many bureaucrats.¹⁵

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The Transfer of Responsibilities

To implement Government Regulation No. 8 of 1995, each province issued its own regulations, stating the types of tasks transferred to its pilot district. As an example, in the Province of West Java, five *urusan*¹⁶ were surrendered through the Provincial Regulation (Peraturan Daerah or Perda Tingkat I) No. 13 of 1995. In the Province of East Java, seven

¹⁴ See Jakarta Post, 11 August 1995.

¹⁵ See discussion about Public Policy in Indonesia in Chapter 1.

¹⁶ The word *urusan* is sometimes used to refer to sub-sector, function, or task. Therefore, responsibilities surrendered by those two provinces were more or less the same.

urusan were decentralized through Perda Tingkat I No. 1 of 1995. On 4 May 1995, a ceremony was held in all participating districts to mark the formal transfer of responsibilities from the central and provincial governments to the 26 districts that participated in the project. Nevertheless, the real transfer did not take place until 1996. The obstacles were both technical and political.

Government Regulation No. 8 of 1995 provided a list of activities to be transferred to the Dati II. But the mechanism through which the transfer would be made was still not clear. In Government Regulation No. 45 of 1992, it was mentioned that the central departments could surrender part of their functions directly to the district authorities or indirectly through the provincial government. But detailed procedures were still to be written. In fact, the procedures were never issued. The draft proposed by the Department of Home Affairs was seen as too general and rejected by the Office of the State Secretary.¹⁷

In addition, the State prepared the list of the transferred functions for the State Apparatus with inadequate consultation with related parties, such as the sectoral departments and regional governments. It was not surprising that some technical problems arose during implementation. Moreover, sectoral departments as well as provincial governments believed many of the activities listed in the regulation could not be assigned to the district level. Officials from the State Ministry for the Utilization of the State Apparatus, they said, should have considered the technical nature of each task in deciding what was best performed at the district level. They further argued that differences among the 26 districts should have been taken into account, and that pilot districts should not have been given the same type of functions.¹⁸

¹⁷ Based on interview to Mr. Widodo Yusuf from the Department of Home Affairs.

¹⁸ Based on interview to officials from both the Department of Home Affairs and the technical Departments.

Gustav Panjaitan, Special Assistant to Men. PAN on regional autonomy, however, denied the accusation that the list was arbitrarily made by his office. He argued that all activities performed at district level were related to the provision of local needs, and therefore would be better carried out by local authorities. He agreed that ideally, different sets of activities should have been assigned to different districts. But he found that criteria for assessing the appropriate functions for a particular district could not be easily defined. Therefore, he proposed that the same set of responsibilities be given to all districts. If districts later proved to be incapable of carrying out some of the assigned tasks, the concerned departments or provinces could withdraw those tasks. He believed that only through such trial and error would the government be able to define what a particular district best performed.¹⁹

Many ministers and governors, however, refused to adopt this approach. They believed once the authority over a function was transferred to another party, it would not be easy to regain control. Moreover, mechanisms for withdrawing transferred tasks were not clear in the regulation. It was not surprising that they refused to surrender all the tasks listed in Regulation No. 8/1995. On the contrary, they insisted on determining for themselves what they would assign to the district level.

To see the project implemented, Silalahi finally agreed to negotiate with each Department and provincial government.²⁰ Unfortunately, district authorities were not included in the negotiations. Even though the project was implemented within the framework of DPOD, it was not its chairman, the Minister of Home Affairs, but Silalahi, who negotiated with sectoral departments. As an official of the Department of Home Affairs

¹⁹ Based on interview with Mr. Pandjaitan in April 1999.

²⁰ The district authorities were not involved in the negotiation.

admitted, this was intentional. As the State Minister for the Utilization of the State Apparatus, Silalahi had a better bargaining position with all departments than Rudini.

As previously mentioned, Men. PAN was empowered to decide the size of every government agency at the central as well as local level. This ministry also decided the scope of the mandate to be performed by each agency, its organizational structure, the number of staff to be employed by this agency, and the number of managerial positions in this agency. With his position, it was not difficult for Silalahi to make all technical departments and provincial governments agree to abolish their Kandep and Cabang Dinas. On the other hand, most departments managed to maintain some control over decentralized functions by keeping some authority over those functions at their Kanwil. The Department of Trade, for example, agreed to surrender the function to regulate small business to its district trade office (Dinas Perdagangan). But its Kanwil retained the authority to issue regulations and permits for the establishment of small enterprises. District authorities were only given responsibility to disseminate the central government's policy to shop owners and street vendors and to ensure their compliance with regulations. Similarly, the Department of Health agreed to transfer responsibility to provide primary health care to the district health office (Dinas Kesehatan Tingkat II). The authority to regulate medical practice and drug selling was, however, retained by its Kanwil. It needs to be borne in mind, of course, that the central agencies wanted to retain the authority to issue permits for this would allow them to control the fees collected.

This tendency made the division of power and responsibility between the centre and the regions more intricate. The distribution of functions tended to follow a marble cake model, where responsibility for performing some functions was shared by the three different

levels of government.²¹ As responsibility was shared, the three levels became highly interrelated and dependent on each other. Under such a situation, it was difficult to expect local authorities to exercise discretion over functions that had been devolved to them. In this sense, local autonomy did not really exist.

During negotiations, Silalahi tended to maximize the number of tasks to be transferred rather than emphasizing functions, which could enhance local autonomy. As a result, many of the transferred tasks did not need substantive decision-making by local authorities. One example was the authority to maintain national roads. This activity was the responsibility of the central government, in this case, the Department of Public Works. However, implementation had been long delegated to provincial Public Works Offices (Dinas PU Tingkat I). Since the field offices of Dinas PU Tingkat I that were located at the district level were responsible for implementation, Silalahi wanted this activity to be delegated to the District Public Works Office (Dinas PU Tingkat II). Officials in the Department of Public Works saw this policy as conceptually misleading because delegating maintenance of major highways would add nothing to the autonomy of the regions. Moreover, they also wondered whether those districts had the technical capacity to properly maintain national roads and bridges. But the Minister of Public Works was forced to give the district authorities a chance to prove they were capable of doing such a job. Realizing that rejection of the transfer would have some impact on the future existence of his ministry, he finally agreed with such arrangement.²² District officials who expected the delegation of this task would bring more projects—and more central funds—to the district level welcomed the decision. Two years later, however, the quality of national roads proved

²¹ See Wright's inclusive authority model (Wright, 1992:23-25)

²² Since the early 1990s, there had been rumours that the Department of Public Works was to be abolished. This Department was finally merged with the Department of Housing in 1999.

to be deteriorating; the officials of the Department of Public Works blamed Men. PAN for the problem.

Another example was the registration of the population, which is done in exactly the same way all over the country, and therefore, adds nothing to district autonomy. Dr. Beier from GTZ argued that *medebewind* would be more appropriate than devolution for such an activity. But an official from the State Ministry for the Utilization of the State Apparatus urged that this activity be decentralized to Dati II. He argued that this activity needed to be carried out near the people. The real reason behind his argument was that a certain fee was imposed for the registration of births, deaths, and marriages and this activity would certainly become a source of revenue to local authorities. Men. PAN was desperate to give more functions that generated funds to local authorities.²³

The dominant role of Silalahi in the negotiations sometimes compelled departments and governors to accept his decision. But at the stage of implementation, some tried to avoid what had been agreed. One example related to the abolition of the field office of the Provincial Taxation Office (Cabang Dinas Pendapatan Tingkat I), which collected provincial taxes at the local level. The Provincial Government of East Java refused to abolish this unit on the grounds that authority to collect provincial tax could not be devolved to the district authorities. But Men. PAN insisted that no cabang dinas be allowed to remain at the district level. The provincial government finally accepted this decision and agreed to delegate the collection of provincial taxes to the Dinas Pendapatan Tingkat. II (the District Taxation Office) of Sidoarjo. But soon after the provincial cabang dinas was abolished by Men. PAN, the provincial government transferred the task to the Provincial Taxation Office. To implement this task, a field office was re-established but under a different name (Kantor

²³ Based on interview with Dr. Beier, in April 1997.

Pelayanan Pendapatan Daerah Tingkat I). Meanwhile, an additional unit was set up under the District Taxation Office to collect provincial taxes.²⁴

The Department of Education and Culture (Departemen Pendidikan dan Kebudayaan) used the same strategy to maintain its control at lower levels. This Department agreed to abolish its field office at the district level (Kandep Dikbud), but transferred responsibility to supervise the implementation of the national curriculum for elementary education to its Kanwil at the provincial level. Following the abolition of its Kandep, this Department also established an Inspection Unit (Kantor Inspeksi or Kanin) at sub-district level, to carry out the former task of the Kandep Dikbud. In the end, the District Dinas of Education and Culture was left with few things to do.

In some cases, Silalahi had to go along with the demands of the provincial authorities and sectoral departments. One example related to the authority over water resources. The provincial government of East Java openly refused to surrender this authority to Kabupaten Sidoarjo. They argued decisions made over the management of water resources affected more than one district. In Regulation No. 45 of 1992, it was stated that a higher level of government should manage such an activity. Another argument was that transferring responsibility to Sidoarjo could create conflict between this district and neighbouring districts, especially over the maintenance and exploitation of water resources. Such conflict might threaten sustainability of the water resources. For these reasons, the Governor of East Java withdrew this authority from Kabupaten Sidoarjo. Men. PAN apparently realized the importance of externalities and decided to accept these arguments.

²⁴ Based on interview with Mr. Aspiyak, the Head of Division for Social Economic Affairs, at the District Planning and Development Unit, Kabupaten Sidoarjo, in May 1997.

The provincial government of East Java was allowed to keep authority over the management of water resources and other provinces adopted the same policy.²⁵

In the end, the central and provincial governments retained many responsibilities that were supposed to devolve to the district level. This development disappointed district officials. The officials of Kabupaten Sidoarjo, for example, regretted Silalahi's inconsistency in implementing decentralization policy.²⁶ They argued that the reluctance of central and provincial officials to surrender powers to the district level was mainly motivated by fear of losing the best sources of revenue. They gave as an example the authority over the use of water resources. They believed that the transfer of such an authority to the district level would not harm the quality of those resources because a consensus on how those resources should be managed could be reached between their district and neighbouring districts, which also benefited from those water resources. However, as a local official said, revenue collected from the fees for the use of ground water was so much that the provincial government was not willing to lose its control over such a lucrative income source. And, for the same reason, the district wanted to control it.

When interviewed, the local official also questioned the legality of the governor's decision to overrule Government Regulation No. 8 of 1995. In the Indonesian legal system, a governor's decision ranks lower than a government regulation. Therefore, he considered the governor's decision to retain authority over water resources as illegal. This problem, he said, had been reported to the Central Supervision Team. But no action was taken by the central government. This exacerbated the conflict between district and provincial authorities. This conflict was further aggravated by the fact that compensation for sand and

²⁵ Based on interview with Mrs. Sutimah, chief of the Legal Bureau of the province of East Java.

²⁶ Based on interview with Mr. Nur Tojib, Head of Division for Organization and Procedures, and Mr. Asfiyak, Head of Division for Social and Cultural, the District of Sidoarjo, East Java.

gravel extraction (*tambang galian C*) was still collected by the provincial government, even though this power had been decentralized through Regulation No. 8/1995 to the district level. The kabupaten only received a percentage of the revenue.

When an evaluation was conducted in 1997, all the pilot districts complained about the tendency of the central and provincial governments to retain their authority to issue permits. This practice, they said, left district authorities with the burden to finance all the transferred functions without producing revenue for the district government. But when district authorities were later given the opportunity to propose functions they considered as better assigned to them, they tended to include all activities that could generate revenue. They did not seem concerned that those tasks would not provide room for local initiatives. This showed that the main intention of local authorities was to gain control over sources of revenue rather than to have more autonomy in planning and decision making over local affairs.²⁷

Transfer of Personnel

To allow the pilot districts to carry out the transferred tasks, Government Regulation No. 8/95 required that the personnel of Kandep and Cabang Dinas be transferred to the district level.²⁸ In practice, the central and provincial authorities released lower-level administrative staff from their Kandep and Cabang Dinas, but retained most senior and well-trained staff, especially those with technical expertise. They argued that this was due to their concern about the future careers of those staff. They would rather retain their senior staff if the district chief could not guarantee appropriate *eselon* positions to them.

²⁷ Self-assessments were done by regional authorities in 1997, but sponsored by the GTZ.

²⁸ The central civil servants working at Kandep and Cabang Dinas apparently had better qualification, especially in technical matters.

Actually, the establishment of a number of new *dinas* had doubled the number of *eselon* positions available at the district level. In Kabupaten Bandung, for example, the number of *eselon* positions increased by 250 in 1996.²⁹ Most district chiefs, however, tended to appoint local staff to such positions. As previously mentioned, Government Regulation No. 8 of 1995 gave the district head the authority to appoint officials to *eselon* IV and V positions, and the nomination of officials to *eselon* III. In Kabupaten Bandung, for example, Bupati Hatta Djatipermana allowed a maximum of fifty percent of newly created positions to be taken by staff transferred from higher levels of government. As a consequence, many of the former staff of Kandep and Cabang Dinas was withdrawn to provincial or even to central levels by their superiors.

Another reason for withdrawing staff was due to the complexity of the process itself. The transfers of senior staff (rank III/a and above) usually took a long time because, according to the government's policy, transfer had to be processed through several agencies in Jakarta.³⁰ Moreover, approval of the list of staff to be transferred had, in practice, to be obtained from the district chief prior to submission to BAKN.³¹ This approval process became the main source of delays.³² The chief of Kanwil PU in the province of West Java, for example, said he had been waiting for almost two years for the Bupati's approval of the list of staff he proposed to be transferred to Kabupaten Bandung. One of his staff speculated that the delay was intentional in order to provide more opportunity for local staff to be appointed as managers for the implementation of some infrastructure projects, which were

²⁹ See Info PAN, July 1996.

³⁰ The Indonesian civil service is divided into four service ranks (*golongan*), and each rank is further divided into four to five grades. Altogether there are 17 service levels: Ia to Id, IIa to IId, IIIa to IIId, IVa to IVe. For each service level, there is a minimum educational requirement. The minimum requirement for rank IIIa is a university degree. The central level, even for regional staff, does the recruitment for university graduates. The authority of regional government is limited to the recruitment and management of those with diploma qualifications and below.

³¹ Government Regulation No. 8/1995 did not mention at all about this kind of approval.

³² In the case of lower ranking staff, the transfer could be made directly to the district level.

being delegated to the districts. Since status as a local official became one of the requirements imposed by the district chief for the appointment as a local project manager, those who formally still belonged to the central government would not be eligible for such a position. This speculation later proved to be true. In fiscal year of 1997/1998, most project managers for public works projects were appointed from local staff who mostly had neither relevant educational background nor appropriate experience in related business. This made the officials of the Department of Public Works and the National Development Planning Board worry about the deterioration in the quality of services, which were now managed at the district level.³³

In East Java, a different mechanism was initiated. The lists of staff to be transferred were proposed by Kanwil heads through the governor. Interestingly, the approval of the lists submitted by the Bupati of Sidoarjo was immediately issued because the governor, his superior, had endorsed the lists.³⁴ But again, transfer of staff with technical backgrounds could not be fully implemented because only a few relevant positions were made available for them at the district level. As a consequence, from 197 staff with university degrees proposed to be seconded, only 116 were finally accepted by the Kabupaten Sidoarjo (Kabupaten Sidoarjo, 1997:6).

Actually, many of the local staff also held university degrees, but mostly in the field of administration and government.³⁵ Those who had technical or engineering backgrounds tended to work for the central government because the central government provided more

³³ Interview with some staff and the head of the regional office of the Department of Public Works in West Java province.

³⁴ Interview with I Djaelani, head of Dinas PU Tingkat I in East Java province, and his assistants, May 1997.

³⁵ In Kabupaten Bandung, before the project, only 13 out of 213 university graduates had technical backgrounds (engineering, agriculture). After the project the number increased to 44.

opportunities for career advancement.³⁶ Therefore, many officials saw the idea of staff secondment as an effective solution to the problem of lack of professional staff at local level, especially in poor and remote districts, which could not provide financial incentives to attract fresh graduates from prominent universities. Moreover, staff secondment was also regarded as part of the effort to streamline central and provincial bureaucracies. Unfortunately, local officials were quite reluctant to accept those seconded staff for they saw them as potential competitors. Concentration of professional staff at the central level had made it difficult for the central government to reduce its role in the business of local government. This situation also contributed to the slow progress of decentralization in Indonesia.

Transfer of Equipment

Regulation 8 of 1995 also required that all equipment that previously belonged to Kandep and Cabang Dinas, including those controlled by their projects, be to be given to related units under the Dati II. This policy was expected to enable newly established dinas to effectively carry out the transferred tasks. In making this decision, however, the State Ministry for the Utilization of the State Apparatus did not realize that, in practice, some Kandep and Cabang Dinas provided services for more than one district. This made the transfer of equipment difficult.

One example was the experience of the Cabang Dinas Bina Marga (a field office of the provincial Dinas of Public Works), located in the City of Bandung. This unit had been charged with maintaining national and regional roads and bridges within the territories of Kabupaten Bandung and Kotamadya Bandung. When its responsibility for Kabupaten

³⁶ As staff members of a district government, the highest position they could reach was eselon III.

Bandung was transferred to the district dinas of public works, the chief of Cabang Dinas refused to surrender its equipment. He argued that his office had responsibility to maintain roads and bridges in Kotamadya Bandung, and to perform this responsibility his office still needed the equipment. Since Kotamadya Bandung was not participating in the pilot project, its Cabang Dinas Bina Marga, which served this territory, was retained. But part of its tasks was transferred to Kabupaten Bandung. He further argued that, considering the workload of the Dinas of Public Works in Kabupaten Bandung, it would not be efficient if the equipment were given to the district dinas. If the Cabang Dinas retained the equipment, other districts in West Java province could still share its use. A similar problem was faced by the Cabang Dinas Bina Marga in the City of Jambi, which not only served Kotamadya Jambi but also Kabupaten Batanghari, one of the participating districts.

The Cabang Dinas LLAJR (*Lalu Lintas Angkutan Jalan Raya* or Land Transportation and Traffic Control) also experienced the same problem. This unit was responsible for conducting engine-safety examinations of motor vehicles. For efficiency reasons, it served more than one district. When one of those districts participated in the decentralization project, the same issue arose of whether the equipment should be retained by the Cabang Dinas or surrendered to the local authority. The governor of East Java, for example, decided that not only the equipment, but also the responsibility for conducting motor-vehicle examinations be withdrawn to the Dinas LLAJR at provincial level. But the Kabupaten Sidoarjo challenged this decision and appealed to the central government. Their argument was that this task had been transferred to their kabupaten through Perda Tingkat I No. 1 of 1995 and based on this legislation, the district council has also issued a district regulation (Perda Tingkat II) to assign this task to one of the units under the district

government. Like in the case of revenue for sand and gravel extraction, Sidoarjo's appeal did not receive a response from the central government (Kabupaten Sidoarjo, 1997:12).

The case above shows that in deciding which tasks were to be assigned to the district authorities, the central government ignored such factors as economies of scale. Actually in Government Regulation No. 45 of 1992, it was stated that functions, which would be handled more efficiently at the provincial or even national level, should not be assigned to the district level. But the State Ministry for the Utilization of the State Apparatus did not intend to strictly use the criteria defined in Regulation No. 45 of 1992. As noted by the GTZ team, there were indications that other considerations were more important in many cases (1997:15).

The process of transferring equipment to the district authorities was hampered by the fact that the existing mechanism was so complex. Approval was needed not only from the Department of Finance, but also from the DPR for the transfer of central assets or from the DPRD Tingkat I for the transfer of provincial assets. The process was particularly difficult if the equipment was purchased through foreign aid. As a consequence, district governments usually only received office buildings, furniture and simple office equipment such as manual typewriters.

The Expansion of Local Government Organization

As previously mentioned, the pilot districts were allowed to form new *dinas* to allow them to properly carry out the newly transferred functions. To accommodate variations among those districts, no maximum number of new *dinas* to be added was set in Regulation No. 8/1995. Such a policy enabled those districts, including Kabupaten Bandung and Kabupaten Sidoarjo, to create as many *dinas* as possible in order to maximize the number of

eselon positions available at the district level.³⁷ District authorities had more incentives because any increase in the number of *dinas* would automatically bring an increase in the amount of SDO received from the central government (see chapter 5). It was not surprising if the number of *dinas*, which ranged from 10 or 11 in early 1995, increased to 25 and even 27 in some districts by the end of 1997 (see Table 6.3).

Rapid expansion in the organization of local government brought the consequence that many of the newly created *dinas* had too few tasks to do. The District Trade Office (Dinas Perdagangan), for example, only had the responsibility to supervise street vendors, and small shops. But, its size was quite big, with five divisions and more than twenty subdivisions, following the structure for the largest *dinas* permitted by the Department of Home Affairs.³⁸ The organizational structure of the District Transmigration Office (Dinas Transmigrasi Tingkat II), which had responsibility to disseminate information about the Transmigration Program, also followed this structure. The tendency to adopt the structure for the largest *dinas* caused not only a rapid increase in the number of *eselon* positions, but also increased the number of staff employed by the pilot districts. This was because the formation of new *dinas* also gave local authorities an opportunity to recruit new staff. As discussed above, there were more incentives than disincentives for local government to create as many positions as they could. This tendency was especially evident in Kabupaten Bandung. The number of local staff in this kabupaten increased from 4,175 in 1995 to 9,534 in 1997.³⁹ This increase was mainly a result of new recruitment. This situation had caused

³⁷ In Indonesia, *eselon* positions were often used to reward obedient staff or to ensure staff's loyalty to their superior. Having an *eselon* position meant receiving additional income and having better facilities.

³⁸ The Department of Home Affairs introduced a maximum type and a minimum type of organizational structure of local government. It was expected that small districts would adopt the minimum type, but most districts insisted on the maximum type.

³⁹ Approval from Men. PAN for recruiting new staff was not always easy to get, and therefore, part of the new staff were non-permanent and paid through the local budget.

local expenditures for routine activities, particularly for salaries, in the pilot districts to increase dramatically.

The expansion of local government organizations also created a need to review the division of tasks and functions among all units under the local government. This was due to the fact that, before the project, some central departments had already delegated part of their tasks to district authorities. If an appropriate dinas did not exist, the Bupati was free to assign these tasks to any of the existing units under his or her authority. To avoid overlapping, new arrangements needed to be made. The need to rearrange the assignment of tasks and functions, however, was not always recognized by district authorities. This often created tension between newly established dinas and units that had existed before the project.

One example was the authority to issue permits for the use of land for industrial or medium-scale housing complexes. This authority had been delegated by the Directorate General of Human Settlements (*Direktorat General Cipta Karya*) in the Department of Public Works to the district level in the late 1980s. Since Dinas Cipta Karya did not exist at that time, in most districts this task was assigned to Bappeda Tingkat II (Local Development and Planning Office). But when Dinas Cipta Karya was formed under the pilot project, there was an issue whether these responsibilities would be better assigned to the newly established dinas or kept by Bappeda.

In Kabupaten Bandung, the head of Dinas Cipta Karya demanded that the authority be transferred from Bappeda to her office. Her argument was that all tasks, which formerly fell into the jurisdiction of the Directorate General of Human Settlements, should be assigned to Dinas Cipta Karya. But the official of Bappeda rejected to surrender the authority for issuing permit for the use of land. He argued that Dinas Cipta Karya had been

given the authority to issue building permits, and therefore, it was fair if the authority to issue land-use permits was retained by the Bappeda for it did not have any other source of income. The Bupati seemed to agree with this arrangement. Thus, instead of dealing only with one unit, investors who wanted to build housing estates had to seek approval from both Bappeda for a land-use permit and *Dinas Cipta Karya* for a building permit.

This example suggests why the project's objective to increase the efficiency of the provision of services was difficult to achieve. Even though the establishment of *pelayanan satu atap* (one-stop service) to customers had been advised under the project in order to shorten the bureaucratic chain in the provision of public services, the tendency of each unit to want to have its own source of revenue hindered this effort.

Financing the Transferred Tasks

Regulation No. 8 of 1995 stated that transferred tasks should be financed through local budgets. To increase the local budget, this regulation required that all budgets associated with the transferred tasks be shifted to the district level. To implement this policy, the Department of Finance and the National Development Planning Board were instructed to work on the details. Soon after the launching of the project, the Department of Finance reallocated the budget for routine activities previously given to Kandep and Cabang Dinas to the district level through SDO (the central subsidy for routine expenditures).⁴⁰ The sectoral budget for development activities, however, could not easily be shifted to the district level as its allocations were calculated based on a very complex formula. According to Dr. Deddi Supriyadi from the National Development Planning Board, the right formula

⁴⁰ This was quite simple because the allocations of the routine budget were basically calculated based on the number of staff working in each district.

for defining how much should be reallocated was not easy to define. Different formulae needed to be applied for different sectors. The National Development Planning Board tried to find a solution by assessing the needs in each district based on proposals submitted by district authorities. But this idea was abandoned because district proposals looked more like shopping lists.

There was also a problem in choosing the right mechanism for channelling funds. So far, the allocation of development budgets through sectoral departments had been seen as an effective strategy for ensuring continued economic growth. Therefore, many officials from this agency preferred funds be given to district authorities in the form of specific grants. They feared that giving the funds in the form of block grants to the district authorities would have a negative impact on the future progress of national development in the country. One official at the National Development Planning Board admitted that his colleagues still did not trust district chiefs. It made sense that they wanted to have some control over the use of these funds. They realized that specific grants would undermine district autonomy, but because a system of checks and balances was not in place, they felt central control was still necessary.⁴¹

Officials of the Department of Home Affairs were divided over this issue. While those from Directorate General of Regional Development (*Pembangunan Daerah* or Bangda) tended to prefer that funds be channelled as specific grants, many in the Directorate General of Regional Autonomy (PUOD) wanted funds to be given in the form of block grants. Again, their preferences were very much influenced by the position of their organization. While the former Directorate General controlled the allocation of specific grants through its guidelines, the latter had authority to ratify local budgets. This again

⁴¹ Based on interview to Max Pohan of Bappenas in July 1997.

demonstrated the accusation that each party was only concerned about how to maximize the amount of funds under its control.⁴²

In Fiscal year 1997/1998, the National Development Planning Board failed to transfer funds from sectoral budget allocations to the 26 pilot districts. This delay disappointed district officials. They complained that the central government gave them only the responsibilities, but not the resources needed to carry out those responsibilities. They also felt betrayed. Instead of increasing local autonomy, they said, the pilot project only increased the financial burdens on local government. In response, Dr. Ginanjar Kartasasmita, chairman of the National Development Planning Board, tried to convince each technical Department to shift a portion of its budget to the district authorities. In March 1997, he managed to convince Radinal Mochtar, Minister of Public Works, to convert half of the budget for developing urban infrastructure into an Inpres fund for the district level. Public Works retained the other half of the budget for the purpose of preparing technical guidelines for district authorities in managing local infrastructure.⁴³ In addition, Radinal also agreed to give funds in the form of block grants. But a few months later, the Directorate General of Regional Development of the Department of Home Affairs issued guidelines for the use of the newly introduced Inpres fund. These guidelines disappointed not only the officials of the Department of Public Works but also district authorities. To some officials, this incident provided evidence that the real intention of the Department of

⁴² From several sources, including Widodo Yusuf and Dr. Susongko of the Department of Home Affairs.

⁴³ One officer saw such a deal as an exchange for Ginanjar's decision to give the Department of Public Works the authority to coordinate the implementation of a bigger project, the opening of 1 million hectares of wet land in Central Kalimantan. Such a rumour was, however, dismissed by Mr. Sidabutar, one of Radinal's special assistants. He argued that Radinal had long been a strong advocate of decentralization. He was actually the important figure behind the introduction of Regulation No. 14 of 1987 on the transfer of part of the responsibilities in the field of public works to the regional level. By doing so, Radinal expected that his Department would focus its activities on the development of large-scale infrastructure and on the improvement of the quality of human resources in the field of public works.

Home Affairs was not to strengthen regional autonomy, but to gain control over resources transferred from other departments to the district level. This incident also made it more difficult for the National Development Planning Board to encourage other departments to follow Radinal's move.

Basically, the sectoral budget could not serve as a reliable source of funds for the districts. This was because continuity of this source could not be guaranteed. The types and sizes of sectoral projects implemented in a particular district might differ from time to time, depending on the priority set by sectoral departments. Moreover, such uncertainty could be expected to encourage each district to negotiate with each . This would create room for collusion between the central officials and local bureaucrats. Therefore, total reform in the existing fiscal system was necessary to give authorities a more stable and sufficient source of revenue. But any effort to draft such a law always confronted the problem of whether to introduce a revenue-sharing system or to centralize collection of main taxes but redistribute the revenue according to the specific needs of each region. Proponents and opponents for the two options were more or less balanced. Moreover, as discussed in the previous chapter, the system of Inpres funds was still preferred by many in the central bureaucracy as it allowed the centre to have some control over the use of the central transfers.

The long delay in reforming fiscal relations also caused regional governments to introduce a variety of taxes and user charges (*retribusi*). In 1996, approximately 50 different categories of taxes and 58 types of fees were collected by provincial governments and another 50 types of taxes and 134 types of charges were collected by district authorities. Many of those taxes and charges overlapped with each other. Tax on restaurants and hotels, for example, overlapped with value-added tax. Tax on entertainment, another example, overlapped with sales tax. Most of these taxes and charges were introduced by regional

heads without the approval of local councils. This practice was motivated by the fact that local revenue (*Pendapatan Asli Daerah* or PAD) was the only source that could be used freely by district authorities for locally initiated projects. This practice, according to Fajrul Falaak from Gajahmada University, was also strengthened by the tendency of each unit under local government to have its own sources of off-budget funds.⁴⁴

The need to finance the newly transferred tasks provided local authorities with another justification to extend and intensify their collection of local taxes and charges. Each district, for example, built its own bus terminal, and a small fee was imposed on all buses going through the terminal. In addition, passengers were charged with *uang peron*, a small fee for entering the terminal area.⁴⁵ Tax on the use of street lamps, another example, was imposed on all villages, even some that had yet to be connected to the electricity supply. Fees were also imposed on those who parked their cars not only on the street but also in the front yards of factories or private office buildings. The fact that private companies, which were often owned by the *Bupati's* relatives, collected these taxes and fees also raised the issue of KKN (*Kolusi, Korupsi dan Nepotisme* or Collusion, Corruption and Nepotism).

Over time, the situation became unbearable for many business people. In early 1996, the Association of Real Estates of East Kalimantan, for example, complained to Governor Ardans about the number of local fees they paid. They argued that one seventh of the total cost for building a very simple social housing unit (*rumah sangat sederhana*, RSS) was spent on local taxes and fees. At the same time, the Association of Real Estates in Ujung Pandang, South Sulawesi, also claimed that 25% of the total cost for social housing went to

⁴⁴ Kompas, 14 March 1996.

⁴⁵ Prof. Ichlasul Amal from Gajahmada University once told a story in a seminar about his student's experience travelling from Yogyakarta to Wonosobo (approximately 200 kilometres). This student had to pay *uang peron* at three different terminals, in Yogyakarta, Magelang, in Temanggung. I also went through a similar experience in West Java, when travelling from Cimahi to Soreang through Bandung.

the local taxation office. In fact, the amount of money paid to this office was much higher than the profit gained by the developers. Cattle farmers in West Nusa Tenggara also complained about different types of charges they had to pay.⁴⁶

The Indonesian Textile Association also blamed a variety of charges imposed by central and local government as a factor hindering their effort to become more competitive in the world market. As part of deregulation packages, 17 types of fees levied by the central government on textile industries were removed in early 1996. But, Aburizal Bakri, the chairman of the Indonesian Trade and Commerce Chamber (*Kamar Dagang Indonesia* or Kadin), demanded that charges collected by provincial and district levels also be abolished. Hamzah Has, a member of the DPR from the PPP fraction, suggested that the Minister of Finance review the necessity for these collections (Kompas, 8 February 1996). In addition, the DPR invited the Minister of Home Affairs to a meeting in late February 1996, during which Sumitro Maskun, the Director General of PUOD, represented the Minister of Home Affairs. According to Sumitro, his office had been planning to abolish unnecessary collections. But the assessment was still being conducted⁴⁷. A few days later, he announced his 's intention to abolish 23 types of fees at the local level and another six at the provincial level. In the governors' conference, which was held in March, Yogi S. Memet, the Minister of Home Affairs, suggested that all taxes and fees that were introduced by regional heads' decrees be abolished.⁴⁸

⁴⁶ The farmers had to get their cattle registered at the village office for which a small fee was paid. They also had to have their cattle checked by a veterinary before they could sell them, and paid another fee to the Dinas LLAJR when the cattle were transported to another district, and yet another fee to the quarantine office at the seaport when they brought the cattle to another island.

⁴⁷ Kompas, 29 February 1996.

⁴⁸ Kompas, 27 March 1996.

In response to the Minister of Home Affairs' suggestion, I Bagus Oka, the governor of Bali, said that in principle he agreed with Yogi's proposal. But he was concerned about the impact of this policy on local revenue and local ability to develop their own regions. Similarly, Nuriana, the governor of West Java, was also wondering whether this policy would result in a significant decrease in locally generated revenue and reduce the capacity to finance locally initiated projects. Nevertheless, he promised to support the effort to rationalize local taxes and charges. In contrast, T. Syaifudin, the Secretary of Golkar in the Province of North Sumatra, strongly rejected the idea. He argued that the centre could not simply abolish taxes and charges that were guaranteed by law. As long as those collections were introduced through local legislation, the central government could not abolish them.⁴⁹

Efforts to rationalize local taxes created a dilemma in Indonesia. On the one hand, rationalization would reduce the problem of the 'high cost economy'. On the other hand, abolishing a number of local taxes would significantly decrease locally generated revenue and the opportunity for local government to implement locally initiated projects. As previously discussed, local revenue was the only source over which local authorities had discretion. Therefore, many scholars believed abolishing local taxes would not be effective. Instead, they believed fiscal policy needed to be totally reformed in order to provide local authorities with a broader tax base.⁵⁰

While the Department of Home Affairs was busy contemplating which taxes and fees were to be abolished, the Department of Finance finished drafting a bill to replace the emergency laws No. 1 and No. 12 of 1957, which had given local authority the power to impose local taxes and user charges. This bill was sent to the DPR in November 1996 and

⁴⁹ Kompas 26-29 February 1996.

⁵⁰ Kompas, 26 to 29 February 1996.

received overwhelming support. A few months later, the bill was enacted as Law No. 18 of 1997 on Local Taxes and Fees.

Law No. 18 of 1997 granted provincial governments the authority to levy taxes in three areas, and gave district authorities the power to levy taxes in six areas. The law only defined the maximum rate that regional governments could impose for each tax. Thus, the actual rate in each province or district could be based on real conditions in the region. The law also allowed provincial governments to charge fees on nine types of services they provided, while district authorities could earn revenue from 30 types of services they provided to communities. The law still enabled regional governments to introduce other taxes, provided they were economically feasible and approved by the central government.

The law, according to Dr. Fuad Bawazier, the Director General of Taxation in the Department of Finance at that time, was aimed at eliminating the problem of high cost economy by simplifying the tax structure, and avoiding overlapping between taxes levied by different levels of government. By reducing the number of taxable objects, he expected that collection could be made efficient and tax leakage minimized. In addition, Bawazier said, the proposed law would also correct local misconceptions about fees (*retribusi*). He argued that a fee differed from tax. A fee, he said, was a user charge. It could only be charged to those who benefited from services provided by local authorities.⁵¹

The law was, however, was strongly criticized by some officials of the Department of Home Affairs. They argued that the content of the law did not conform to the spirit of decentralization. Central restrictions on types of taxes and charges that regional government could impose obviously undermined the autonomy of the regions.⁵² Moreover, this

⁵¹ See Kompas, 2 December 1996.

⁵² Dr. Koswara from the Centre for Research and Development of the Department of Home Affairs was one among those who openly criticised Law No. 18 of 1997.

Department believed that this new law would significantly reduce local revenue. In response to this criticism, Arlen Pakpahan from the Department of Finance argued that the central government should increase its grants to local governments rather than allow local taxes and charges to jeopardize the national economy. He also argued that the degree of autonomy had nothing to do with the amount of local revenue raised. Regional governments could have discretion over the central grants as long as they were given in the form of block grant. The problem was, he said, the Department of Home Affairs' tendency to regulate block grants given to the regions.⁵³

Impact of the Project on Local Autonomy

From the discussion above it was clear that the pilot project initiated by Kantor Men. PAN (the State for the Utilization of the State Apparatus) failed to achieve a meaningful increase in local autonomy. Under the project, a number of government tasks were assigned to the district level. Many of them, however, did not need substantive decisions by local authorities, and therefore did not have much impact on local autonomy. The absence of any attempts to empower local councils also contributed to the failure to promote local decision making. The project's failure to grant sufficient funds to finance the transferred tasks increased the financial burden on local budgets.

The assignment of functions to the district level was the result of bargaining between the State Ministry for the Utilization of the State Apparatus, the central technical departments and the provincial governments. In the absence of criteria on how power and responsibility should be divided between different levels of government, decisions on which functions to assign and what authority should be surrendered to local government were

⁵³ Interviewed with Arlen Pakpahan, who was involved in the preparation of Law No. 18 of 1997.

primarily shaped by the interests, strategies and power positions of the agencies involved. With his authority to regulate the civil service, Major General Silalahi successfully forced central departments and provincial governments to transfer as many tasks as possible to district authorities. However, his tendency to focus on the number of tasks assigned to district level (as it was used to measure success), rather than on the nature of the assigned tasks enabled technical departments and provincial governments to retain activities that allowed them to control the implementation of transferred functions. As a result, local authorities performed more functions, but authority to make decisions over those functions remained at the central and provincial levels.

The lack of effort to strengthen the DPRD was rooted in the perception of the government about decentralization. For Men. PAN, the Minister of Home Affairs, and many high-ranking officials, decentralization was simply the transfer of administrative authority from the central to the local bureaucracy. Therefore, many of the stipulations in Government Regulation No. 8 of 1995 were concerned with strengthening the capacity of local bureaucracies to implement the transferred tasks. To ensure that district authorities properly performed the transferred tasks, the regulation also required central agencies to guide and supervise the district government in implementing their tasks. In this case, the need to strengthen the political role of the DPRD to provide checks and balances to the local executive, as advocated by many scholars, became unimportant. The perception that public policies were to be made within the bureaucracy was very dominant during the Suharto era (see chapter I).

The inability of the project to shift part of the central sectoral budget to district governments also contributed to failure to promote local decision making and make local authorities more independent of the centre. Opposition to this idea came not only from

sectoral departments but also from the National Development Planning Board, the agency empowered to make budget allocations. To most sectoral departments, shifting part of their budget to district authorities might reduce the amount of resources under their control and their power position. To officials of the National Development Planning Board, allocating more of the development budget through local government jeopardized the achievement of national development targets because local authorities could be expected to prefer small-scale projects that would only produce local benefits. Thus, there was a dilemma in choosing between supporting regional autonomy and maintaining the speed of economic development in the country. In addition, there was also fear among central agencies that transferring resources to regional governments would not increase regional autonomy, but strengthen the power position of the Department of Home Affairs *vis-a-vis* other agencies.

Table 6.1. List of Districts participating in the Pilot Project on Decentralization

No.	Province	Dati II
1.	Special Region Aceh	Kabupaten North Aceh
2.	North Sumatra	Kabupaten Simalungun
3.	West Sumatra	Kabupaten Tanah Datar
4.	Riau	Kabupaten Kampar
5.	Jambi	Kabupaten Batanghari
6.	South Sumatra	Kabupaten Muara Enim
7.	Bengkulu	Kabupaten South Bengkulu
8.	Lampung	Kabupaten Lampung Tengah
9.	West Java	Kabupaten Bandung
10.	Central Java	Kabupaten Banyumas
11.	Special Region Yogyakarta	Kabupaten Sleman
12.	East Java	Kabupaten Sidoarjo
13.	West Kalimantan	Kabupaten Sambas
14.	Central Kalimantan	Kabupaten East Kotawaringin
15.	South Kalimantan	Kabupaten Tanah Pasir
16.	East Kalimantan	Kabupaten Kutai
17.	North Sulawesi	Kabupaten Minahasa
18.	Central Sulawesi	Kabupaten Donggala
19.	South Sulawesi	Kabupaten Gowa
20.	Southeast Sulawesi	Kabupaten Kendari
21.	Bali	Kabupaten Badung
22.	West Nusa Tenggara	Kabupaten Central Lombok
23.	East Nusa Tenggara	Kabupaten Timor Tengah Selatan
24.	East Timor	Kabupaten Aliue
25.	Maluku	Kabupaten Central Maluku
26.	Irian Jaya	Kabupaten Sorong

Source: the State Ministry for the Utilization of the State Apparatus

Table. 6.2. List of Field of Responsibility Transferred from the Centre to Dati II based on PP 8 of 1995

No.	Fields of Responsibility
1.	Agriculture
2.	Husbandry
3.	Fishery
4.	Plantations
5.	Transmigration and resettlement
6.	General government
7.	Social affairs
8.	Cooperatives and promotion of small enterprises
9.	Tourism
10.	Public Works
11.	Traffic Management
12.	Mining
13.	Trade
14.	Health
15.	Labour
16.	Industry
17.	Education

Source: Government Regulation No. 8 of 1995

Table 6.3. Number of Dinas, Cabang Dinas Tingkat I and Dinas Tingkat II before and after the Pilot Project (Status, April 1997)

No.	District	Before the project			Total	After
		Kandep	Cabang Dinas Tingkat I	Dinas Tingkat II		
1.	Aceh Utara	9	7	10	26	21
2.	Simalungun	8	11	12	31	24
3.	Tanah Datar	9	8	8	25	20
4.	Kampar	10	2	14	26	23
5.	Batanghari	9	4	12	25	21
6.	Muara Enim	8	6	15	29	23
7.	Lampung Tengah	8	7	13	28	23
8.	Bengkulu Selatan	9	5	10	24	20
9.	Bandung	9	9	11	29	23
10.	Banyumas	9	9	19	28	23
11.	Sleman	9	5	10	24	22
12.	Sidoarjo	9	8	10	27	22
13.	Sambas	9	9	5	23	21
14.	Kotawaringin Timur	10	9	5	24	20
15.	Tanah Laut	8	3	12	23	21
16.	Kutai	9	5	9	23	21
17.	Minahasa	8	5	11	24	20
18.	Donggala	10	3	11	24	22
19.	Gowa	8	5	12	25	22
20.	Kendari	10	2	9	21	21
21.	Badung	9	2	12	23	22
22.	Lombok Tengah	10	2	10	22	20
23.	TTS	8	2	10	20	20
24.	Aileu	5	1	10	16	19
25.	Maluku Tengah	10	4	8	22	20
26.	Sorong	8	2	12	22	21
Total		228	135	271	634	555

Source: The State Ministry for the Utilization of the State Apparatus

Note:

After the project, the office of the Department of Religion (*Kandep Agama*) and the Regional Office of the Department of Information (*Kandep Penerangan*) still existed in every district.



Chapter VII

Decentralization initiated by Technical Departments

This chapter discusses the experiences of the Department of Public Works (Departemen Pekerjaan Umum or Dep. PU) and the Department of Health (Departemen Kesehatan or Depkes) with implementing decentralization. As previously discussed, in 1986 the Department of Public Works introduced the Integrated Urban Infrastructure Development Program (IUIDP), aiming at decentralizing responsibility for provision of urban services to the regional governments. In the following year, the Department of Health launched the Third Health Program (HP III) through which the responsibility to provide basic health care was transferred to district authorities.

In both cases, the decision to decentralize was primarily motivated by the need to maintain infrastructure and facilities that were previously built by the centre and expand the capacity of the central government to take over the responsibility to finance basic services in the face of significant decreases in central budget allocations. Consequently, the focus was on the shifting of financial and administrative burdens to the regions. The need to promote local decisions tended to be ignored.

Decentralization of Urban Infrastructure Provision

Urban infrastructure here refers to water supply, solid-waste management, urban roads and bridges, sewerage and drainage. During the Dutch colonial administration, as part of the effort to implement the Decentralization Law of 1903, the responsibility to maintain

and operate these facilities was given to municipal governments through the enactment of the Municipal Administration Ordinance of 1926 (Kosasih and Sutmuller, 1995:29). After independence, responsibility over those facilities was assigned to municipalities when they were formally established by the republic in the early 1950s (see Chapter III). Following independence, local capacity to build, operate and maintain urban infrastructure was, however, very weak. As a consequence, in the 1960s there was a tremendous backlog of unmet needs (World Bank, 1983: 3).

Since the early years of the New Order period, the establishment of services to meet basic needs, especially in urban areas, had been one of the government's priorities. In 1969, in cooperation with the World Bank, the central government introduced the first Kampung Improvement Program (KIP) to provide basic micro-level infrastructure to low-income urban communities (*kampung*) in the national capital city of Jakarta.¹ This program concentrated on upgrading and/or providing new walkways and roads, drainage, clean water supply, communal latrines/washing facilities and other community facilities. Realizing that KIP only focused on micro-projects, during the second five-year development period (1974-1979) the central government introduced the First Urban Development Project, which was aimed at establishing citywide urban services and systems in Jakarta. This project was then followed by the Second Urban Development Project, which covered not only Jakarta but also Surabaya, the second largest city in Indonesia. During the third five-year development period (1979-1984), the government introduced the Third Urban project, which covered large cities such as Semarang, Surakarta, Surabaya, and Ujung Pandang, and the Fourth Urban project for middle-sized cities such as Padang, Palembang, Pontianak, Banjarmasin, Samarinda and Denpasar. At the same time, in cooperation with the Asian Development

¹ The Dutch Colonial government first initiated KIP.

Bank (ADB), a similar project was also introduced in Medan, Bandung, and a number of small towns in Central Java (Suselo, 1995:12-13).

Despite the enactment of Law No. 5 of 1974, which emphasized that responsibilities for public services provision to the largest extent possible should be given to local authorities, most infrastructure projects were not only prepared and financed but also implemented by the central government through the Department of Public Works. To carry out this task, this Department established regional offices in every province (*Kantor Wilayah* or Kanwil PU), charged with coordinating and supervising the execution of projects by public works project offices at the local level. The role of the district public works office (Dinas PU Tingkat II), a technical unit under the district government, was consequently reduced to only helping the central department to identify the needs for infrastructure development and implementing small-scale and locally funded infrastructure projects.²

The Need for Decentralization

The New Order Government seemed to consider investment in urban infrastructure as essential. During the first four five-year development periods, the largest part (approximately 40 percent) of the central expenditures went toward building and maintaining urban infrastructure. In the Fourth Five Year Development period (1984/85-1988/89) alone, Rp 2,094 billion was spent for water supply, road, drainage and flood control, sewer and waste disposal services.³ A 1984 study by the government of Indonesia estimated that in the Fifth Five Year Development period the government would provide Rp

² Unlike other departments, the Department of Public Works did not have offices (Kandep) at the district level, but project offices at the project sites.

³ In the early 1980s, US\$1 was equal to Rp 800,-

4,500 billion to meet reasonable growth needs and overcome service backlogs. These cost estimates had led to heightened concern about the financing of urban infrastructure. Meanwhile, the decline in the world oil price in 1984 had severely limited the central government's ability to maintain its previous level of development expenditure, because approximately 60 percent of the central government's budgetary revenue had been collected from oil and natural gas taxes. As a consequence, the central government was forced to cut its grants in every sector, including urban infrastructure (IBRD, 1987:3).

Officials of the Directorate General of Human Settlements (*Direktorat Jenderal Cipta Karya* or DJCK), who were responsible for urban infrastructure development under the Department of Public Works, recognized that limited funds from the central government meant that: a) responsibility for financing infrastructure development should be shifted as much as possible to the local level; b) local governments must mobilize additional revenue in order to sustain the present level of urban services; and (c) the existing grant and loan financing mechanism should be modified to provide incentives for local revenue generation and borrowing (the World Bank, 1987:3). Inspired by the decentralization programs being implemented in other Asian countries, these officials developed the concept of the Integrated Urban Infrastructure Development Program (IUIDP). Under IUIDP, it was proposed that responsibility to plan, build, operate and maintain urban infrastructure be given to the district authorities. The role of the central government would be limited to providing guidelines, technical assistance and fiscal incentives to encourage local authorities to mobilize local resources and to use domestic or foreign borrowing for financing investment in urban services.⁴

⁴ Interview with Mr. Hendropranoto Susela, a senior urban planner, and also the Director of Programme development in the Directorate General of Humans Settlements. He was actually the main actor behind the development of IUIDP concept. Unfortunately, he was transferred to another position not long after his idea

Realizing that the scope of IUIDP was far beyond its authority, the Department of Public Works tried to seek support from related agencies such as the National Development Planning Board, the Department of Finance and the Department of Home Affairs. For this purpose, a conference was held in Puncak, West Java, in mid-1994. Besides high-ranking officials from the central government, mayors from big cities and representatives of donor agencies and countries also attended the conference. The conference ended with overwhelming support for the introduction of the new approach.⁵

In developing the IUIDP concept further, the Directorate General of Human Settlements received technical assistance from the United Nation Development Program (UNDP).⁶ Meanwhile, some donor agencies, such as the World Bank and ADB also expressed their willingness to support IUIDP implementation. In addition, the development of IUIDP coincided with the enactment of Government Regulation No. 14 of 1984 on the transfer of part of the responsibility for providing infrastructure to regional governments. This regulation provided a legal basis for IUIDP implementation.

Government Regulation No. 14 of 1984

The Secretariat General of the Department of Public Works had initiated government Regulation No. 14 of 1984 not long before the Directorate General of Human Settlements proposed the IUIDP concept. This regulation was intended to provide a framework for decentralizing some of the government tasks in public works. As previously mentioned, the central government's intensive involvement in building infrastructure during

was made known. Further development of the concept, therefore, did not necessarily conform to his original idea.

⁵ I was involved in the conference

⁶ Since the early 1980s, the Directorate General of Human Settlements had received some assistance from UNDP/UNCHS for the preparation of National Urban Development Strategy.

the 1970s meant functions, which formally fell under the responsibility of regional governments, were now being performed by the central department. Mr. Radinal Mochtar, Secretary General of the Department of Public Works, felt his Department should concentrate on its central mission to introduce innovations in infrastructure development. He believed the central government should limit its role to the development of major infrastructure and the introduction of newly invented technology on infrastructure. He also argued that regional governments were capable of building and operating local facilities.⁷ To implement this idea, he initiated preparation of Government Regulation No. 14 of 1984, which defined the division of responsibilities between the three levels of government in infrastructure development. Thus, the Department of Public Works was the first technical Department to implement Law No. 5 of 1974.

The division of responsibilities stipulated in this regulation is shown in table 7.1. These divisions were based on several criteria, such as the extent of externalities, the level of technology needed to carry out the functions and the cost for building, operating and maintaining the facilities. Under this regulation, the responsibility of each level of government was quite clear. The centre would be responsible for establishing national policies and standards and providing major infrastructure. Provincial government was charged with the provision of infrastructure that had a regional impact, and the district governments were given the responsibility to provide local services such as water supply, solid waste management, urban roads, drainage and sewerage (see also Shah et al., 1998:181).

Regulation No. 14 of 1984 also made it clear that regional governments were fully responsible for the construction, operation, and maintenance and financing of transferred

⁷ Based on his address during a staff meeting in 1989.

facilities. The role of the Department was to be limited to formulating national policies and standards, and providing regional governments with technical assistance and training. Thus, this regulation gave district authorities more freedom in carrying out their tasks, provided that their actions were not in conflict with policies and standards set by the central government.

Table. 7.1. The Division of Responsibilities in Public Works Sector

Function	Center	Province	District
Irrigation	National policy and standards on water resources management The management of river basins Training and Technical Assistance	Provision of primary and secondary irrigation networks	Provision of tertiary irrigation networks
Roads and Bridges	National policy and standards for road and bridges construction, operation and maintenance Provision of national roads and bridges Training and technical assistance	Provision of provincial roads and bridges	Provision of local roads and bridges
Urban services: urban roads, bridges, footpaths, drinking water, drainage, solid waste collection and disposal, parks, recreation areas and markets.	National policies and standards of urban services provision Training and technical assistance	Oversight	Provision of urban services

Source: summarized from Government Regulation No. 14 of 1984.

Integrated Urban Infrastructure Development Program (IUIDP)

IUIDP was formally introduced not long after the enactment of Government Regulation No. 14 of 1984. This program was aimed at enhancing efficiency and effectiveness in the provision of urban services. It was initiated to overcome the following problems (see also van der Hoof and Steinberg, 1992: 1-2):

- centralized provision of infrastructure which tended not to reflect local needs and ignore local authorities and communities in the operation and maintenance of projects,
- inefficiency in the use of limited resources due to duplication of efforts made by central, provincial and local levels of government due to unintegrated planning programming and budgeting system for infrastructure development.
- high dependency of local authorities on central government grants in financing capital cost, operation and maintenance of infrastructure.

To counter the above problems, the following strategies were introduced (Sidabutar, 1992:24):

- providing greater opportunities to local authorities to design and build infrastructure programs in order to meet local needs;
- integrating the process of preparing infrastructure programs which previously had been performed separately by central, provincial and local authorities through preparation of an integrated multi-year program (*program jangka menengah*,PJM);
- providing technical support to local authorities in order to improve their capacity to prepare infrastructure programs by assigning a technical consulting team to every province to assist a particular group of municipalities or regencies;
- encouraging local authorities to mobilize local resources and to use foreign sources in financing infrastructure development by establishing a cost system, which specifically

describes the percentages of central grant for components that have been devolved to local authorities but considered important by the central government for meeting a national minimum standard.

The main innovation under IUIDP was the preparation of the multi-year investment program (PJM) for infrastructure development by district governments. This document consisted of a series of action plans, aimed at improving not only the performance of infrastructure services but also enhancing local institutional and financial capacity. This action plan would also be accompanied by a multi-year budget, which showed the amount of shares from all agencies over the five-year implementation period.

To enable the district authorities to prepare their PJM, in mid 1986 the Department of Public Works assigned a team of domestic and foreign consultants to a number of local governments in Sumatera and West Java. A few months later, another consulting team was appointed for East Java and Bali provinces. In the following year, some other firms were hired to prepare IUIDP implementation in other provinces. In addition to providing technical support, the Department of Public Works provided participating districts with funds for conducting the studies. Following the assignment of the consultant, a technical team comprising all related district officials was formed in each participating district by its district head. This team was given formal responsibility for preparing the PJM for its district.

The provincial authorities, which previously were not involved in the provision of urban services, were now given the task of steering implementation of the studies made at the district level. For this purpose, in 1987 the provincial government established a steering committee, consisting of officials from the Office of the Regional Secretary, the Provincial Development Planning Board (Bappeda Tingkat I), the regional office of the Department of

Public Works (Kanwil PU), the Provincial Public Works Office (Dinas PU Tingkat I), and the Provincial Taxation Office (Dispenda Tingkat I). This team was later charged with appraising the multi-year program proposed by local governments.

At the same time, an interdepartmental team called the National Coordinating Team for Urban Development (*Team Koordinasi Pengembangan Perkotaan* or TKPP), consisting of high-ranking officials from the National Development Planning Board, the Department of Finance, the Department of Home Affairs and the Department of Public Works, was also established through the National Development Planning Board's decision. This team was expected to formulate national policy and guidelines with regard to national targets for infrastructure development for the next five years, technical standards for the construction of infrastructure, and cost-sharing arrangements between central and local levels for infrastructure development. These policy guidelines were very important, especially due to the absence of detailed policies on decentralization. As previously discussed, legislation required to implement Law No. 5 of 1974 was not issued until the mid-1990s.

Unfortunately, TKPP tended to act as a coordinating board for project preparation rather than an urban policy deliberation institution. In 1990, there was a feeling in the National Development Planning Board that TKPP was increasingly taking on the role of the National Development Planning Board. This team was finally abolished and a new institution called IUIDP Management Group (IMG) was formed under the National Development Planning Board to take over TKPP's tasks. Unfortunately, the weaknesses of TKPP persisted in the sense that IMG also become preoccupied with programme and project coordination matters rather than with the policy aspect of urban development (Suselo, 1995:27).

Parallel to the above efforts, a series of training programs was provided to related central, provincial and local staff. Its framework was prepared by the Department of Public Works with the assistance of the Economic Development Institute (EDI) of the World Bank, but the detailed training materials were written by consulting firms hired by the Department of Public Works. The training itself was organized by the Training Center of the Department of Public Works, in cooperation with provincial training centres. In addition to organizing training in the country, the Department of Public Works also sent a number of central staff from the National Development Planning Board, the Department of Finance, the Department of Home Affairs and provincial governments to urban management courses held by the Institute for Housing Studies (the IHS) in Rotterdam to study urban management. In cooperation with the IHS and the Department of Home Affairs, the Department of Public Works also organized trips to European cities for mayors, district secretaries, and heads of local development planning units.⁸

IUIDP also generated other related projects (Bastin and Smoke, 1992:10-12). In 1987, the Department of Finance established a facility known as the Regional Development Account (RDA), which provided a revolving fund for financing infrastructure development. This institution, however, only started making loans to local governments and regional enterprises two years later. Disagreements between the Department of Finance and the Department of Home Affairs over the details took some time to reconcile.

At the same time, with financial support from the World Bank, the Department of Home Affairs instituted reform of local revenue collection and administration, from a source-based to a function-based focus. In addition, a unique numbering system for firms and individuals was developed to help identify local taxpayers while procedures were

⁸ I accompanied the second group to the Netherlands in 1990.

designed to help determine tax liability. The system was first introduced on a pilot basis in five sites and it has now been installed in over 100 local governments. In 1987, another World Bank financed project was undertaken by the Department of Home Affairs to develop a management system for local governments to plan, finance and implement infrastructure operation and maintenance activities.

IUIDP proved to be problem ridden. Many felt this approach created a cumbersome process because it required the involvement of more agencies in the decision-making process. At the central level, the Department of Public Works was responsible for formulating national policies and standards for infrastructure development, the National Development Planning Board was empowered to determine budget allocation for infrastructure development, the Department of Finance was charged with the administration of local borrowing, and the Department of Home Affairs was responsible for local institutional development. At the provincial level, there were the governor, the provincial secretary (Sekwilda Tingkat I), the provincial development planning unit (Bappeda Tingkat I), the provincial public works office (Dinas PU Tingkat I), the provincial revenue office (Dispenda Tingkat I) and the provincial office of the Department of Public Works (Kanwil Dep. PU), who were responsible for providing direction to local authorities. At the district level, the bupati or mayor, the district secretary (Sekwilda Tingkat II), the district development planning office (Bappeda Tingkat II), the district revenue office (Dispenda Tingkat II), the district public works office (Dinas PU Tingkat II), the water enterprise (PDAM), and in some municipalities the solid-waste management office (Dinas Kebersihan), were all involved in the preparation of the PJM document. With the involvement of so many institutions, the decision-making became a long and laborious

process, characterized by conflicts of interest and actions to defend vested interests (see also Kosasih and Sutmuller, 1995:51).

At the central level, disagreements about IUIDP objectives and strategies prevented TKPP from issuing the necessary policy guidelines for the preparation of the PJM by local authorities. Policy on cost-sharing arrangements, for example, was not worked out until 1989. According to Regulation No. 14 of 1984, district governments were fully responsible for financing the provision of urban infrastructure. To encourage local participation in the program, however, the Department of Public Works indicated that financial support would be made available. Unfortunately, the working group, which was established within TKPP and responsible for making policy in this area, failed to meet.⁹ In the absence of a clear funding policy, local governments tended to propose very ambitious programs for their districts, in an attempt to attract more funds from the centre. When they later realized there would be no additional grant for IUIDP financing, most local officials became very disappointed.

In response to local disappointment, the National Development Planning Board promised that central grants would still constitute an important share of IUIDP funding, but suggested that the central share should only be seen as an incentive to achieving the IUIDP goal to increase self-reliance of local governments. The Department of Public Works proposed that all expenditures for cost recovery investment be funded by local own revenue and local borrowing and expenditures for non-recovery projects such as the Kampung Improvement Program would still be subsidized by the centre. The officials of the Department of Home Affairs, however, were quite reluctant to endorse local borrowing

⁹ Under the TKPP umbrella, four working groups were formed on the following subjects: Urban Policy, Urban Programme, Municipal finance, and Urban Institutional Development. In practice, only the Urban Programme working group led by the Department of Public Works was particularly active (see Suselo, 1995).

because they believed that it would only create burdens for local authorities. They were not optimistic that investment in local infrastructure would generate enough revenue to allow district authorities to pay back their loans. Compromise was finally achieved between the centre and the regions: project scope was reduced, the central government agreed to bear part of the costs, and local governments were required to make loans to finance the gap.¹⁰

Conflict of interest was also found at the local level. While most members of the IUIDP technical team tended to fight for more funds from local budgets for IUIDP activities, other officials tried to persuade district heads not to spend more on infrastructure because it would jeopardize the district performance in other sectors such as education and health. Decisions on how much should be allocated to which sector could not be rationally made because needs assessments were only available for urban services. Information for the needs for other sectors was not available. This situation had obviously created bias in the budgeting process. The tendency of district heads to prefer infrastructure projects had also been motivated by their need to generate more revenue for their off-budget funds.¹¹

Lack of reasonably accurate data, coupled with inexperienced local staff, also hampered PJM preparation. The absence of sufficient and coherent directions from the provincial steering committee had disappointed local employees. Uncertainty about the status of central on-going projects, which were prepared and implemented based on the traditional sectoral approach by divisions of the Department of Public Works, also slowed down the preparation process.¹²

¹⁰ Information was primarily obtained from my participation in the appraisal meetings conducted for East Java, West Java, and Sumatra IUIDP packages in 1989-1990.

¹¹ Off-budget funds are collected mostly from illegal sources and used for financing unauthorised expenditures, including additional allowances for government officials. Physical projects have become the main source of off-budget funds.

¹² As Mr. Hendropranoto Suselo noted, many engineers in his Department found it difficult to accept a more integrated and decentralized approach to infrastructure planning and implementation.

Donor agencies demanded a higher standard of project documentation, again making the preparation process difficult and lengthy. The preparation of the IUIDP for East Java and Bali, for example, began in 1986, but the loan for financing the project was not signed until March 1991. The World Bank wanted to clarify everything at the beginning, including the organizational arrangements for implementation. Meanwhile, neither district authorities nor the consulting team had enough experience in preparing the required documents. Moreover, conditions for borrowing were only made clear later (van der Pol, 1995: 88). To speed up the process, the central government finally provided local authorities with additional assistance to help them prepare project documents, which complied with the World Bank's standards.

The Asian Development Bank-sponsored IUIDP for West Java and Sumatera, in contrast, was able to conclude a loan agreement in September 1989 after a rapid appraisal and negotiation process. But not a single project had been started two years later. The bank demanded that its headquarters in Manila approve all the detailed project documents prior to implementation. While no loan disbursement could be made, the Government of Indonesia had to pay substantial commitment fees after the loans were signed. These problems fostered criticism from some quarters regarding the IUIDP approach, leading some to advocate a return to the previously top-down sectoral approach to urban development (Suselo, 1995: 21; Bastin and Smoke, 1992: 14).

The first year of the implementation period was a disaster in almost every district. Local staff was completely unaware of the administrative procedures imposed by the banks. The project management units (PMUs), which were supposed to advise and coordinate district governments, were only established at the provincial level a year after the loans became effective. The delay was primarily due to the disagreement between the Department

of Public Works and the provincial governments on who should control the PMUs. As an executing agency for IUIDP, the Director General of Human Settlements insisted the PMUs should be formed under his organization because he would be responsible to the donor agencies for the overall implementation of the program. The provincial governments argued that establishing PMUs under the DJCK would be in conflict with the IUIDP objective to empower regional governments. The banks preferred central government staff to chair the PMUs because they had more experience with foreign aid administration and procedures. The banks' attitude was criticized by some decentralization advocates (see also Smoke and Lewis, 1995). In the end, PMUs were formed by the DJCK and chaired by its staff, except in East Java. In this province, due to the insistence of the Bappeda's chairman, the provincial government was allowed to set up the PMU under the Provincial Development Planning Board (Bappeda) and appoint a provincial official as its chairman.¹³

During the implementation period, ensuring that each participating party allocated the funds annually according to the agreed multi-year financing plan had become a major challenge for the PMUs. Even though this multi-year budget had been prepared based on a program approach and approved by the National Development Planning Board and all related central agencies, budget allocations for IUIDP still had to be processed through the traditional sectoral budgeting procedures. Provincial and local shares were still to be proposed through the bottom-up mechanism (see Chapter IV). In addition, the funds from a specific source were still to be administered individually. Funds from the central development budget were managed by the Department of Public Works, while those from provincial and district development budgets were administered by provincial and district

¹³ The provincial government of East Java provided a significant amount of funds for the PMU. Unfortunately, based on my interviews with a number of Bappeda staff and consultants, most of the money was spent for local consultants who happened to be relatives of the PMU chairman. It was widely known that half of the budget for those consultants was actually used for other purposes.

officials respectively. This fragmentation created coordination problem, and consequently, reduced the efficiency in the use of resources.

Local governments had actually long demanded that funds from the centre be given to local authorities in the form of block grants. The officials of the National Development Planning Board were, however, quite conservative and tended to remain tied to the sectoral budgetary structure and allocation. A similar attitude was also found among the engineers in the Department of Public Works itself. The new planning and budgeting system would obviously reduce their control over the national budget for infrastructure. The Department of Finance, in contrast, was very supportive and willing to experiment with the new approach to infrastructure planning and programming. The Department of Home Affairs sent mixed signals. On the one hand, its officials strongly supported the idea of block grants on the grounds that it would strengthen local autonomy. On the other hand, most of their policies indicated their intention to resume control over local budgets. Inpres funds for infrastructure, which were given by the Department of Public Works in the forms of block grants to district authorities, were immediately regulated by this Department without even consulting the Minister of Public Works (see Chapter VI). This contradiction had made other agencies suspicious about their motives (Suselo, 1995:17).

Despite all the difficulties, most governors decided to expand IUIDP to all districts in their provinces. To most governors and district heads, IUIDP would help build infrastructure in their regions. As their performance was often assessed based on their ability to build physical infrastructure, it was not surprising that they preferred IUIDP to other programs. Moreover, infrastructure projects usually generated more contributions to their off-budget funds. These funds were particularly important to their political activities,

including mobilizing support for Golkar, the government party, during the general elections.¹⁴

The Impact of IUIDP on Regional Autonomy

IUIDP obviously increased the involvement of local governments in planning and budgeting urban infrastructure projects. Their intensive involvement, however, did not necessarily reflect greater local autonomy. Under IUIDP the responsibility to build, operate and maintain urban facilities was devolved to local authorities. Local discretion or ability to make decisions about the type of and level of services to be delivered and about how those services were to be provided and financed was, however, constrained by technical guidance and circulars issued by central agencies. Non-compliance was discouraged through financial penalties. Since local governments were financially reliant on central transfers, compliance became necessary.

Local discretion was also hampered by a lack of trained staff at local levels. Their inability to prepare the PJM and to manage its implementation caused them to rely heavily on consultants hired by the central government. As a result, local influence on the content of programs became less significant. In the end, the program reflected central interests rather than local preferences and needs. Nevertheless, the IUIDP training program which was later conducted extensively for local staff had contributed to the improvement of local capacity in managing the future infrastructure projects.

Under IUIDP, the division of role and responsibility between the central and regional governments became more intricate. As responsibility was shared, the three levels of government became more dependent on each other. This interdependence made the

¹⁴ This was a common practice in the bureaucracy during Suharto period.

decision making laborious and lengthy. More time was needed for bargaining and negotiation for all decisions on urban services needed approval from the provincial and national levels. In addition, a shared arrangement created the problem of accountability. Since the responsibility was shared, it was difficult to identify who was responsible for which decision. This shared responsibility provided no incentives to local governments to appropriately perform their duties.

Figure 7.1. Organizational Structure for the Provision of Urban services

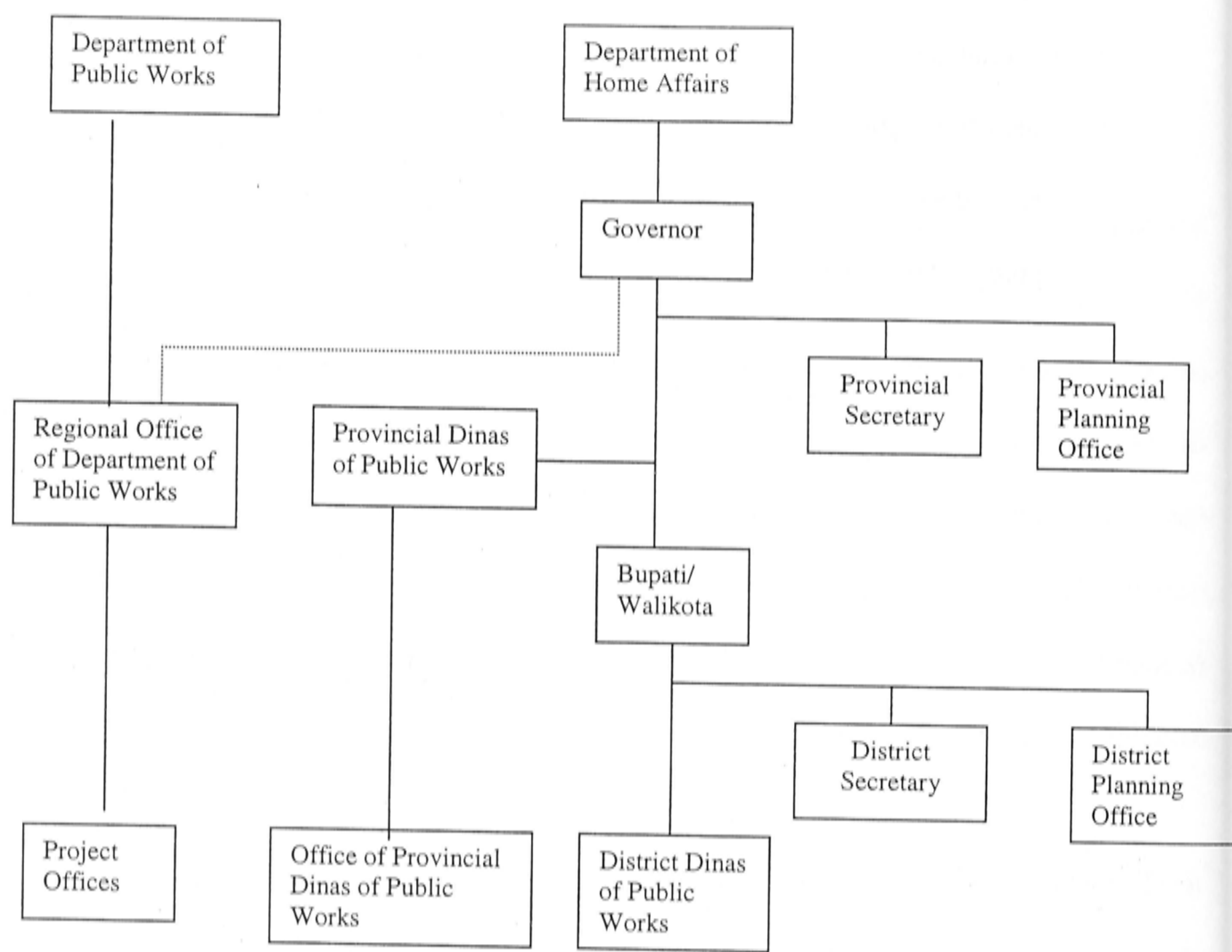
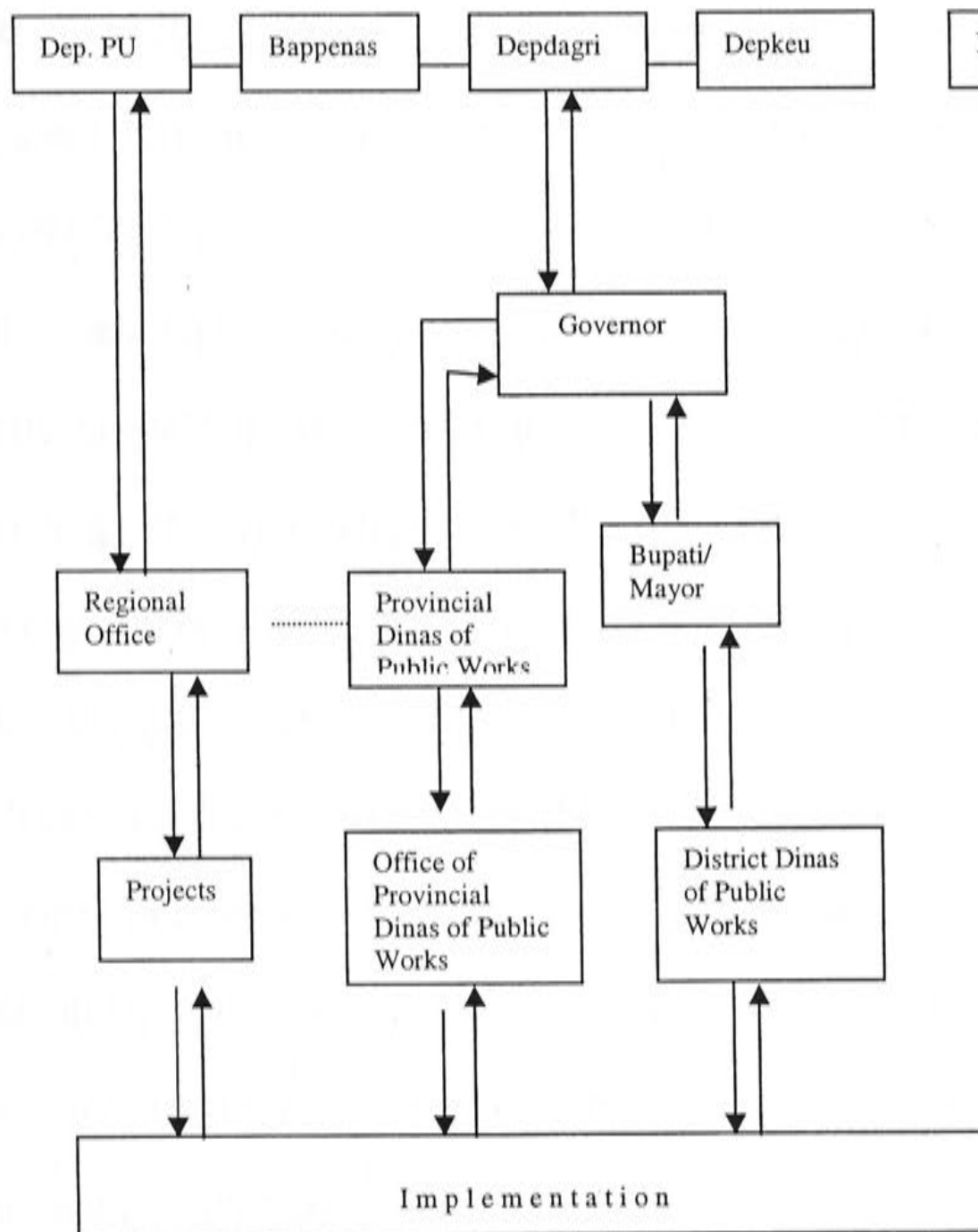
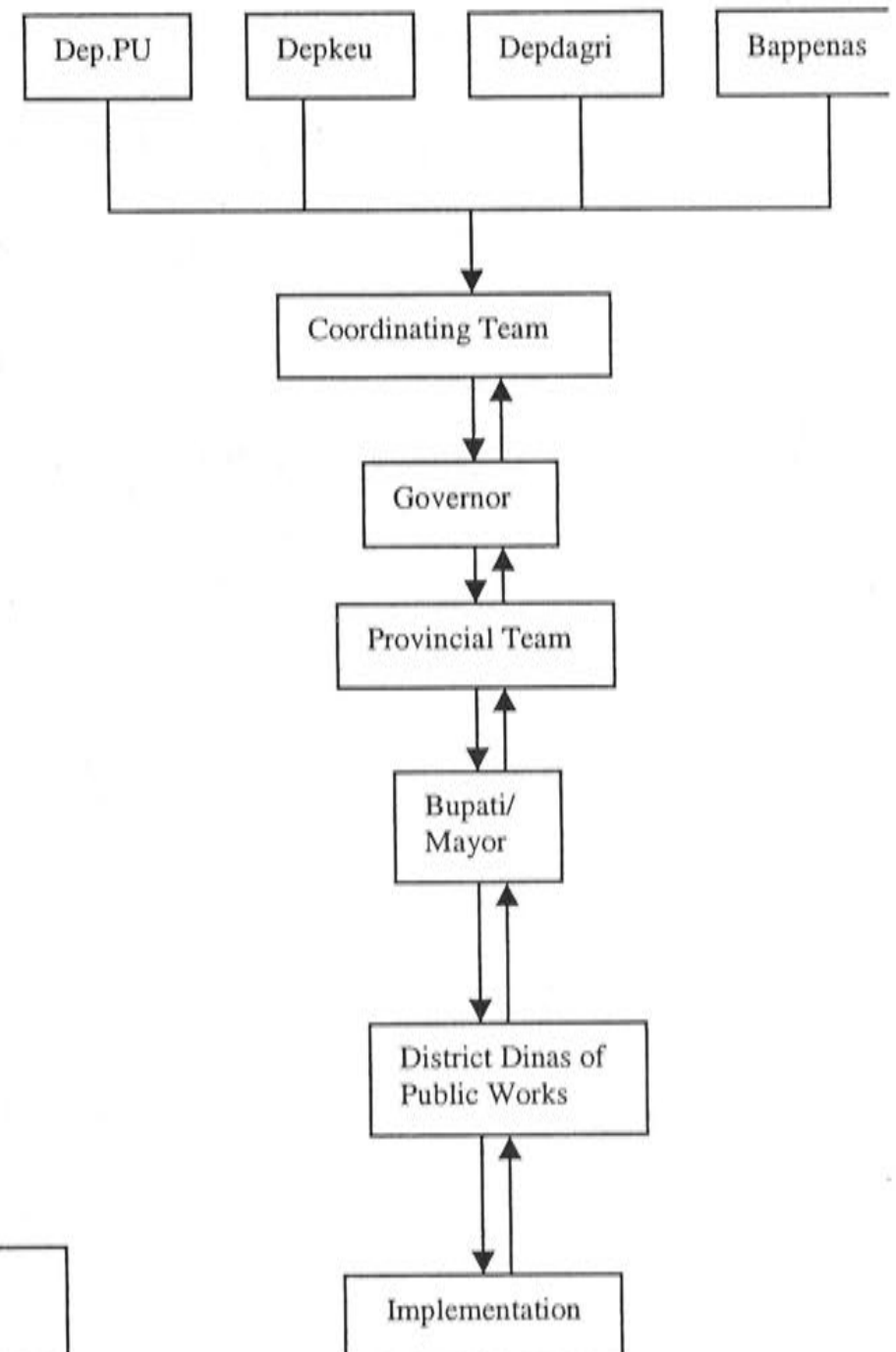


Figure 7.2. Procedures for Program Preparation and Implementation under Sectoral and IUIDP Approaches

Under Sectoral approach



Under IUIDP approach



Source: Sidabutar, 1992. 'The Origin and Concept of the IUIDP', in van der Hoff and Steinberg, *Innovative Approaches to Urban development*, Avebury, Ashgate Publishing Limited, Gower House, England, p. 26.

Decentralization of Basic Health Services

Responsibility to provide basic health services, like urban services, has long been delegated to local authorities. In 1952, to implement Law No. 22 of 1948 on regional government, the Department of Health transferred the responsibility to provide basic health care to all provinces, and regencies/municipalities in Java and Sumatra. The formal transfer was also made to the four provinces in Kalimantan in 1956, Irian Jaya in 1969 and East Timor in 1976.¹⁵ Interestingly, such a transfer was never made formally to Bali, West Nusa Tenggara, East Nusa Tenggara, and provinces in Sulawesi. Despite this fact, these provinces had performed these functions since their formation in the early 1950s (CPIS, 1995: 1).

Up to the 1970s, having access to health care was a real problem in Indonesia, especially for those living in rural areas. Due to budget constraints, publicly available health services were largely run in district hospitals, with non-hospital staff working in a relatively small number of peripheral facilities in rural areas. In the early 1970s, as the economy grew, the central government began to play a major role in the provision of health services. In 1974 a special grant was introduced to expand the availability of health services throughout Indonesia. A community health centre (*Puskesmas*) was built in every sub-district. By 1984, the number of *Puskesmas* had increased to 6,954, from 1,227 in 1968.¹⁶ At the same time, the number of hospitals had also grown and remained an important component of the health system. The centrepiece of the government's health system was, however, the *Puskesmas*, which provided curative outpatient care and undertook preventive health activities in rural areas. Each health centre had 13-15 employees, including a doctor, 4-6 nurses and

¹⁵ Responsibility for primary health care was transferred to provinces in Java through Government Regulation No. 49 of 1952 and to district level through Government Regulation No. 50 of 1952. The transfer of such responsibility to Sumatera was made through Government Regulation No. 51 of 1952, and to Kalimantan through Government Regulation No. 22 of 1956.

¹⁶ The data were taken from the 1984 Pocket Book of Statistics, issued by the Indonesian Bureau of Statistics.

midwives, and various technical and paramedical workers. On average, each *Puskesmas* had three *Puskesmas Pembantu* (sub-centres), each staffed by a midwife or a nurse (Lieberman, 1996:6). The expanded number of *Puskesmas* caused the government spending (excluding foreign loans and grants for salaries) on health to rise by 172 percent in real terms during the first four years of Repelita III (1979/80 - 1983/84).

Why Decentralize¹⁷

As a result of increased access to modern health care, the infant mortality rate, a useful broad-gauge of health outcomes, had fallen to roughly 86 deaths per thousand in 1980 from a 1970 level of more than 100 deaths per thousand.¹⁸ Despite this success, infant survival and other health outcome indicators remained at unsatisfactory levels, especially in the eastern islands and economically underdeveloped areas in Java and Sumatera.¹⁹ Meanwhile, *Puskesmas*, the main provider of the government's services, tended to be underutilized. The centres were poorly managed and their staffs were unmotivated to perform their tasks. As a result, people preferred to seek help from private providers, although they had to pay more than three times the fee charged by *Puskesmas*.²⁰ This situation raised concern about the quality of services provided by *Puskesmas*.

The Department of Health believed that providing additional funds alone might not improve the quality of health services. The way in which basic health care was planned and delivered also needed to be reformed. Basic health care had been provided through a

¹⁷ Most of the information for this section was obtained through my involvement in the project, especially during the evaluation process, which took place between 1991-1992. Interviews were also conducted with Dr. Dedi, the Chairman of the Planning Bureau, Ms. Mawarwati, the Executive Secretary of HP III, and Dr. Ludy and some other project staff in East Kalimantan, in July 1997.

¹⁸ These figures were taken from the 1995 World Bank Report.

¹⁹ A study by Kasto and Sembiring showed that in 1980 infant mortality rates (IMRs) were much higher in the eastern provinces such as NTB (189), NTT (128), Sulawesi Tengah (130), and Maluku (123).

²⁰ While *Puskesmas*' fee in 1990 was only Rp 600,-, a private provider usually charged Rp 2000,- for every visit.

complicated mechanism because responsibility was shared by the three different levels of government. At the central level, there was the Department of Health, which prepared national policies and standards in health and ensured the achievement of national targets, especially through centrally funded projects. At provincial level, Kanwil Depkes (the regional office of the Department of Health) supervised the implementation of centrally funded projects and provided technical assistance to provincial and district government, and the provincial health office (Dinas Kesehatan Tingkat I) co-ordinated the preparation and implementation of projects funded by provincial budgets. At the district level, Kandepkes (the field office of the Department of Health) administered medical and para-medical staff seconded to district level and the district health office (Dinas Kesehatan Tingkat II) prepared locally funded projects and performed day-to-day supervision of all projects implemented at the Puskesmas level (see figure 7.2).

The vast majority of government's health services, whether curative, preventive, or promotive, were provided by Puskesmas. The funding of Puskesmas activities, however, came from several budget sources: central government development budget (APBN DIP), central government routine budget (DIK), provincial development budget (APBD I DIP), district development budget (APBD II DIP), and Inpres Kesehatan (a specific grant for health purposes).²¹ In some areas, Puskesmas also received financial assistance from the Department of Transmigration.

These funds were channelled through a number of different projects (DIP and DIPDA). Funds from the Department of Health, for example, came from eight different projects (DIPs): *Puskesmas* Development, Communicable Disease Control, Maternal and

²¹ DIP (*daftar isian proyek*) is a document that specifies the detailed allocation of the government budget for a specific project. DIK (*daftar isian kegiatan*) is a document that specifies the detailed allocation for salaries, office maintenance, and other routine activities.

Child Health and Family Planning, Health Education, Community Participation, Nutrition Improvement, Clean Water Supply and Control and Environment Health. These eight projects came from two different sectors: 1) Health, Social Welfare, Women's Role, Population and Family Planning; and 2) Housing and Settlements.

Each source had its own specific procedures in terms of planning, budgeting, implementation and monitoring and supervision. This fragmentation made it difficult for each level of government to know what resources were available to *Puskesmas*. The absence of such information, coupled with inflexibility in the use of each fund, caused inappropriate investment decisions and lower efficiency in the allocation and management of resources (Bureau of Planning, 1991a: 1).²² Fragmented planning and implementation also meant that no single agency had clear responsibility for the overall planning and implementation of basic health care programs. Under this situation, no one level of government felt completely responsible for ensuring an adequate level of the services.

The officials of the Planning Bureau in the Department of Health believed that the establishment of an integrated planning, budgeting and implementation mechanism would increase the efficiency in the use of resources. They also believed that making district authorities fully responsible for the provision of basic health services would improve responsiveness because district officers were believed to know better local needs and conditions, and their proximity to sub-districts was also expected to enable them to effectively supervise delivery of basic health services by *Puskesmas*. To implement this idea, the responsibility for basic health care needed to be formally assigned to the district governments.

²² Budget allocated to one specific project could not be reallocated to other projects. Facilities attached to one particular project could not be used for other projects.

The need to decentralize the responsibility for primary health care provision was also strengthened by the fact that in the mid-1980s Depkes faced a significant cut in its budget allocation, as a result of decreasing central government revenue from oil taxes. The officials of Depkes realized that a significant reduction in the central budget for health meant that the per capita government spending in health would decrease significantly. It also meant fewer funds would be available for the operation of the health centres because approximately 40 percent of the expenditure would be spent for health workers. If the government did not want to see the quality of health care provided by *Puskesmas* deteriorating, this reduction had to be compensated from other sources, including from provincial and district budgets. Decentralizing part of the burden to finance basic health services to local authorities was seen as part of the solution to the problem.²³

The decision to decentralize the responsibility for basic health care provision was reinforced by the World Bank. To encourage the Department of Health to experiment with decentralization, this agency agreed to sponsor the implementation of such an initiative in two provinces: East Kalimantan (Kaltim) and West Nusa Tenggara (NTB). To provide a legal basis for the implementation, the Department of Health issued Government Regulation No. 7 of 1987 on the transfer of part of responsibility in health to regional government.

Government Regulation No. 8 of 1987

Government regulation No. 8 of 1987 was basically intended to formalize the transfer of responsibility for basic health care to regional governments. As previously discussed the responsibility for basic health care was devolved to regional governments in

²³ In addition to decentralization, Depkes also encouraged private sector to take part in the provision of basic health care.

the 1950s. Since the 1970s, however, the central government had increasingly intervened in local affairs. Intensive central intervention blurred the division of responsibilities between the three different levels of government. Although responsibility for basic health care was never formally withdrawn from the district authorities, in practice decisions on the level of services and the delivery methods were made at the central level by the Department of Health. This practice made local governments feel limited responsibility for the quality of services provided by public health centres. To make district authorities accountable for basic health services, the task needed to be formally reassigned to them.

It was stipulated in Government Regulation No 8 of 1987 that all basic health care and its referral services were to be performed by regional governments (see table 7.2). Although most of the transferred tasks listed in this regulation had been long carried out by the provinces and districts, this regulation empowered local authorities not only to perform but also make decision over the transferred functions. Unfortunately, this regulation also made the responsibility of all regional governments uniform, and therefore, it was criticized for treating the regencies the same way as the municipalities. Municipalities tended to have more experienced medical and paramedical staff than the regencies because big cities usually offered more opportunities for career development as well as urban amenities. This was contrary to regulations introduced during the 1950s, which assigned different health tasks to different regions. Consistent with the framework put forward in Law 5 of 1974, Government Regulation No. 8 of 1987 also emphasized that the role of the Depkes would be limited to providing technical standards and conducting technical supervision over the transferred tasks. This regulation also stated that the Department of Home Affairs would carry out general supervision over local affairs. While the nature of technical supervision to be performed by Department of Health was defined in detail in this regulation, the form of

general supervision to be performed by the Department of Home Affairs was left unexplained.²⁴

To enable regional governments to finance the transferred functions, Regulation No. 14 of 1987 required that the transfer of funds accompany the transfer of functions from the central government. Again, this provision was very much consistent with the policies stipulated in Law No. 5 of 1974. However, the regulation did not indicate how this stipulation was to be implemented.

Table 7.2. The Division of Responsibilities in the Health Sector

Functions	Center	Province	District
Policy making	Set targets, standards	Provide technical assistance to districts	Provide proposals for Health Programs
Curative and promotive Services	Special/referral hospital	Major Hospital Dispensaries/drug supplies	District hospital and Puskesmas Dispensaries
Preventive Services			Public Health and Rural water and sanitation
Health Personnel	Recruitment and training	Administration	

Source: summarized from Government Regulation No. 8 of 1987.

Health Project (HP III)

The HP III, which was implemented in Kalimantan Timur (Kaltim) and Nusa Tenggara Barat (NTB) from 1989 to 1993, was generally intended to enhance efficiency

²⁴ The failure of Law No. 5 of 1974 to clarify the meaning of the general supervision often raised conflict between the Department of Home Affairs and the technical ministries. Unclear definition, for example, enabled The Department of Home Affairs staff to get involved in rather technical matters, such as the preparation of curriculum for nursing school, or the technical aspect of the water supply.

and promote the quality of basic health services through integration of health planning and budgeting activities, and decentralization of responsibility to manage and finance basic health services to the district authorities. Under this project, district authorities were made responsible for the services performed by Puskesmas, and to enable them to control Puskesmas activities, they were given the authority to plan and supervise the execution of health programmes by Puskesmas.

Like IUIDP, HP III also intended to integrate the planning and budgeting mechanism through the preparation of the multi-year program (the macro plan). The macro plan specified actions to be taken and contributions made by each level of government during the five-year implementation period.²⁵ To allow district officials to prepare the macro plan, the Department of Health hired a team of consultants from the University of Indonesia to assist the district governments. In addition, the Department of Health also organized training courses for local health officers.

With regard to funding, the Department of Health was quite realistic and intended to provide the largest share of HP III funding. Participating districts were, however, required to spend their revenues from health fees entirely for basic health services. To increase local revenues for the health sector, district governments were allowed to introduce different fees for different services in different geographical areas. Lower fees, for example, were charged at facilities serving poor populations. In addition, revolving funds for drugs were established in district hospitals and Puskesmas to ensure the sustainability of drug funding.²⁶ Under this scheme, the hospitals and health centres were given the authority to

²⁵ The macro plan serves the same purpose as the PJM.

²⁶ Under this scheme, the hospitals and Puskesmas were given full authority to manage the drug fund and ensure the availability of the drugs they needed. Previously, the drugs were centrally purchased at provincial level. This often created the problem of mismatch between what they need and what they received from the provincial government.

procure drugs. Besides, hospital and *Puskesmas* managers were also permitted to retain part of the revenues they collected and use the funds to finance locally initiated activities that could motivate local health staff to improve their service quality.

Unlike IUIDP preparation, which was difficult and lengthy, the preparation of HP III did not take much time. Firstly, most of the necessary documents were prepared solely by the Depkes. Secondly, only a few local governments participated in HP III whereas, IUIDP was introduced nation-wide. Thirdly, the Department of Health made it clear from the beginning that the Department would continue providing grants for major investment. Local governments were only expected to contribute fees they collected from health services for the operation and maintenance of health facilities in their districts. In the case of IUIDP, in addition to operation and maintenance costs, local authorities were also required to contribute to capital investment.

Following the signing of the loan agreement between the government of Indonesia and the World Bank in 1989, the project management office was established in the Department of Health in Jakarta. The Secretary General was made the Project Director, responsible for the overall direction of the project, and the Head of Bureau of Planning was the project officer, responsible for all technical and administrative aspects of the project. In doing his task, the project officer was assisted by a project secretariat headed by an Executive Secretary who managed all the administrative matters. As many of the HP III innovations dealt with issues outside the purview of the Secretary General, to ensure smooth coordination and timely implementation of HP III activities, a Central Technical Task Force to review and guide implementation of the project was formed. It was chaired by the Director General for Community Health.

A similar organizational structure was also formed at provincial and district levels. At provincial level, the chief of Kanwil Depkes was made the provincial project officer and also the chairman of the Provincial Technical Task Force Team. At district level, the head of the District Health Office was also appointed as the project implementation officer and chairman of the District Technical Task Force Team. Some advisors were also hired and attached to the Provincial Secretariat to help the provincial government to manage the implementation of the project.

Decentralization of health planning and implementation to kabupaten and kotamadya was done in two steps. In fiscal year 1990/1991, authority was transferred to the provincial government. The staffs of the provincial health office was given the responsibility to prepare a plan and budget for all basic health care programs, based on information provided by district health offices. The role of Kanwil was reduced to ensuring that the decisions made by the provincial governments were in conformity with national policies and standards. The provincial health officers were also made responsible for supervising the project execution by *Puskesmas*. In the following year, responsibility to plan and implement basic health care programs was further delegated to district health offices. The role of the provincial dinas was gradually shifted to assisting district health staff in carrying out their tasks.

Decentralizing the authority for health planning and implementation to the district level was not without problems. One obstacle was a lack of trained staff at the district health offices. Young medical doctors, who had just completed their compulsory assignment at *Puskesmas*, preferred working at a hospital to taking a managerial position in a district

health office.²⁷ This was because hospitals offered more opportunities for career development. Lack of trained staff made it difficult for the district health offices to fulfil their obligation. Consequently, to ensure that HP III progressed as scheduled, the project provincial secretariat was forced to intervene in the process of project implementation at the local level. The dominant role of the provincial secretary, especially in East Kalimantan, raised concern about the project's tendency to undermine the importance of strengthening local capacity in assuming the transferred functions. When one of the World Bank advisers attached to the Project Secretariat presented her assessment on the achievements of the project to the National Development Planning Board in 1992, Dr. Kristiadi from LAN openly criticized her emphasis on the physical progress and financial disbursement, and her lack of interest in the process of organizational and staff development at local level.²⁸

Another obstacle to strengthening local autonomy was inflexibility in the use of funds from the World Bank. To ensure that local governments properly spent the funds, the Bank strictly required that the money be spent according to the agreed financing plan, which was made prior to loan negotiation. Such a requirement limited local innovation. Moreover, as mentioned above, the Bank staff also tended to be more interested in timely loan disbursement than local empowerment. It was not surprising if they tended to rely on the Project Secretariat rather than the formal government organization in ensuring the timely and appropriate execution of project activities. This practice obviously became a hindrance to the strengthening of local autonomy.

²⁷ It was compulsory for fresh graduate medical doctors to serve two years in rural areas outside Java or five years in rural Java.

²⁸ In her presentation, the Bank advisor praised the timely implementation of the project in East Kalimantan and criticised the slow progress of the project in West Nusa Tenggara. Unlike in East Kalimantan, where the provincial secretariat played a significant role in the project execution, in West Nusatenggara, the chairman of the provincial project officer tried to have the jobs done by the involved units or staff.

Despite all the obstacles, innovations introduced by the HP III had some positive features. The decentralization of health planning and budgeting provided more opportunity to local health managers to influence the content of health programs. Before the project, their role was limited to supplying information to provincial and central levels. Mechanisms introduced by HP III gave local staff more opportunity to shape the content of the programs to be implemented in their districts. The project also enabled them to have a clearer idea of the available resources and flexibility in their use, and therefore, to prepare a more rational health plan.

Unfortunately, the National Development Planning Board was still unwilling to formally accept procedures initiated under HP III. Consequently, HP III budgets were still to be processed through the traditional bottom-up *Rakorbang* procedures (see Chapter IV). This policy had created dualism in the planning system. In addition, the central government was still reluctant to recognise the accounting system developed for the drug revolving funds. Inflexible attitudes of the central officials discouraged the introduction of reform initiatives.

Another important innovation under HP III was the introduction of budget consolidation. During the preparation period, it was agreed that, to improve efficiency all budgets from the Department of Health would be consolidated into one single DIP (project). This innovation had also been agreed by relevant parties during the loan negotiation, and therefore had also been included in the project document. During the implementation, however, this policy could not be easily implemented. The obstacles were both administrative and political. Those eight DIPs came from two different sectors in the National Budget. This meant they were under the administration of two different divisions

in the National Development Planning Board.²⁹ Since each sector had its own objectives and targets, and its own monitoring and reporting system, consolidation would require a significant change in the way achievements were monitored and evaluated. Moreover, opposition was also found in the Department of Health itself. As the two sectors were administered by two different directorates general, there was fear among officials that a combined project would reduce their influence over the tasks carried out in the regions. After three years delay, it was finally decided that only six DIPs from Health, Social Welfare, Women's Role, Population and Family Planning sector would be consolidated into one DIP, while the two projects from the Housing and Settlements sector were to be administered under separate DIPs.

Budget consolidation proved to be one of the greatest achievements of HP III. This initiative enabled Puskesmas staff to perform all related activities at one time. Previously, Puskesmas' employees executed specific projects separately and prepared separate reports on physical as well as financial progress for every single project. Consolidated budgets enabled them to reduce time spent on paper work and integrate the activities for child and maternal care with others. Moreover, consolidated DIP had also enabled local officials to adjust funding and activities as implementation proceeded. This encouraged better use of resources and increased responsiveness to local needs.

Tariff discrimination was another success story. To assess the affordability of the services for the customers, an American consulting agency (RAND Corporation) was hired to do the study. Fees for health services were then doubled in some Puskesmas located in urban areas in the two provinces. Fees for hospitals were also increased proportionately.

²⁹ As previously mentioned, the organizational structure of the National Development Planning Board followed the structure of the national budget. Changes in the budgeting procedures might require significant changes in the working procedures within this Board.

Preliminary analysis had shown that this initiative, together with the establishment of revolving funds for drugs, had improved utilization of *Puskesmas* and increased revenues from health fees. In some districts, health revenues could cover most of the operational and maintenance expenditures of health centres. Formerly, health centre fees covered only 10% of the recurrent costs of these facilities (World Bank, 1999: 140). Tariff discrimination was expected to reduce government spending on rich areas and to spend more for health services in poor villages.

HP III and Local Autonomy

HP III might have achieved many of its objectives. Revolving funds for drug ensured the availability of drugs in district hospital and *Puskesmas*. Tariff discrimination, to some extent, increased the budget available for the operation of *Puskesmas* and district hospitals. Budget consolidation had given *Puskesmas* staff more flexibility in the execution of health programs. Despite these achievements, the project did not contribute much to strengthening local discretion. The central government retained its control over decision-making.

Local involvement in planning, budgeting and implementation of the health programs was increased significantly. The dominance of the central government's share in HP III financing, however, encouraged local authorities to propose projects they believed to be priorities of the central government. This practice reduced the ability of local government to respond to local needs. The need to seek approval from the centre for projects prepared by the district authorities also undermined the autonomy of local governments. The insistence of provincial health officers to continue supervising *Puskesmas*

activities further reduced the importance of district health officials in the implementation of health programs.

The involvement of a donor agency in the project limited room for local initiatives. The World Bank seemed to emphasize the output rather than the process of implementation. Therefore, instead of giving more opportunities to local authorities in achieving project objectives, it tended to encourage the active role of the project secretariat at the central as well as provincial level.

Figure 7.3. Organizational Structure for the Provision of Primary Health Care

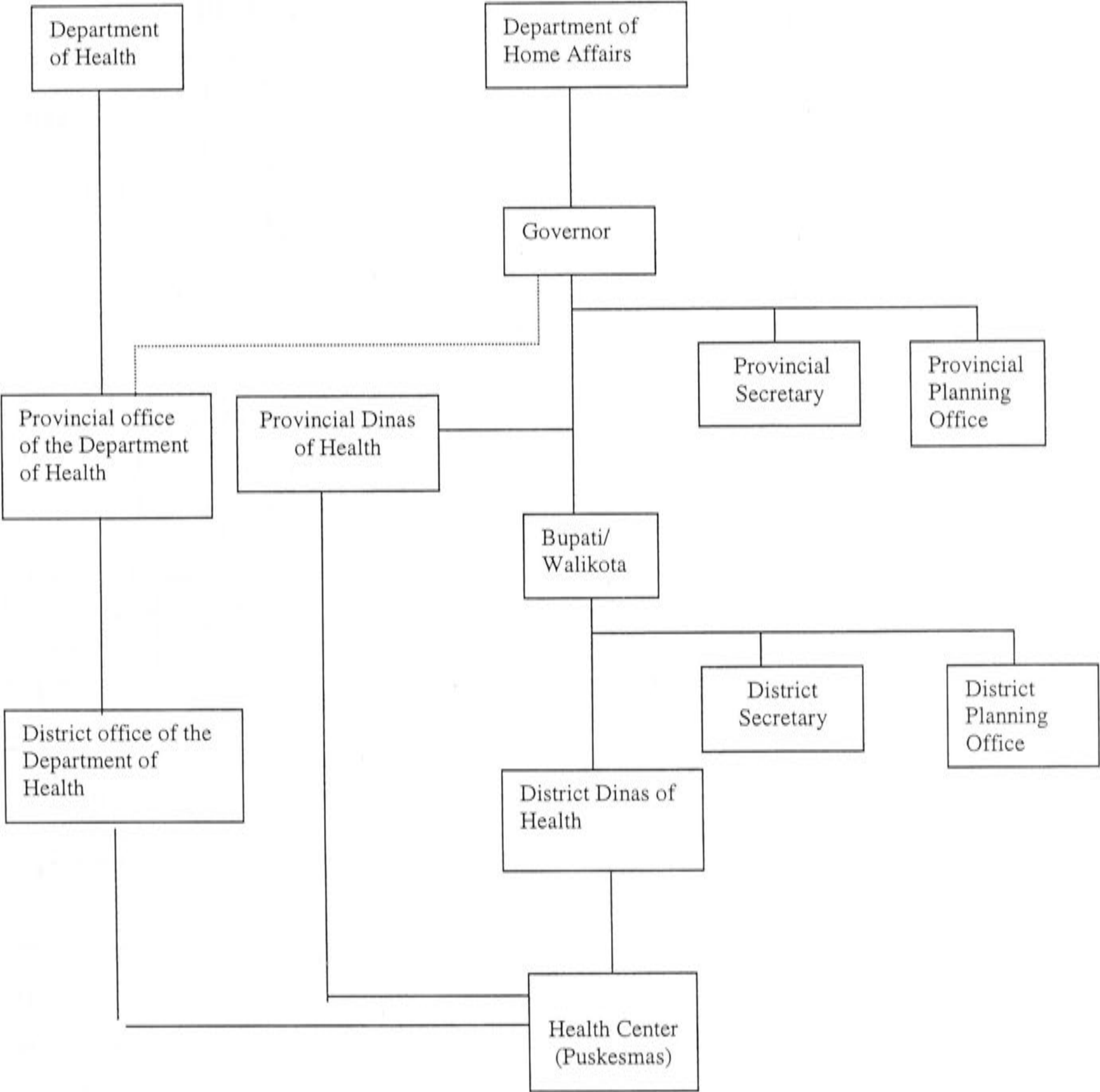
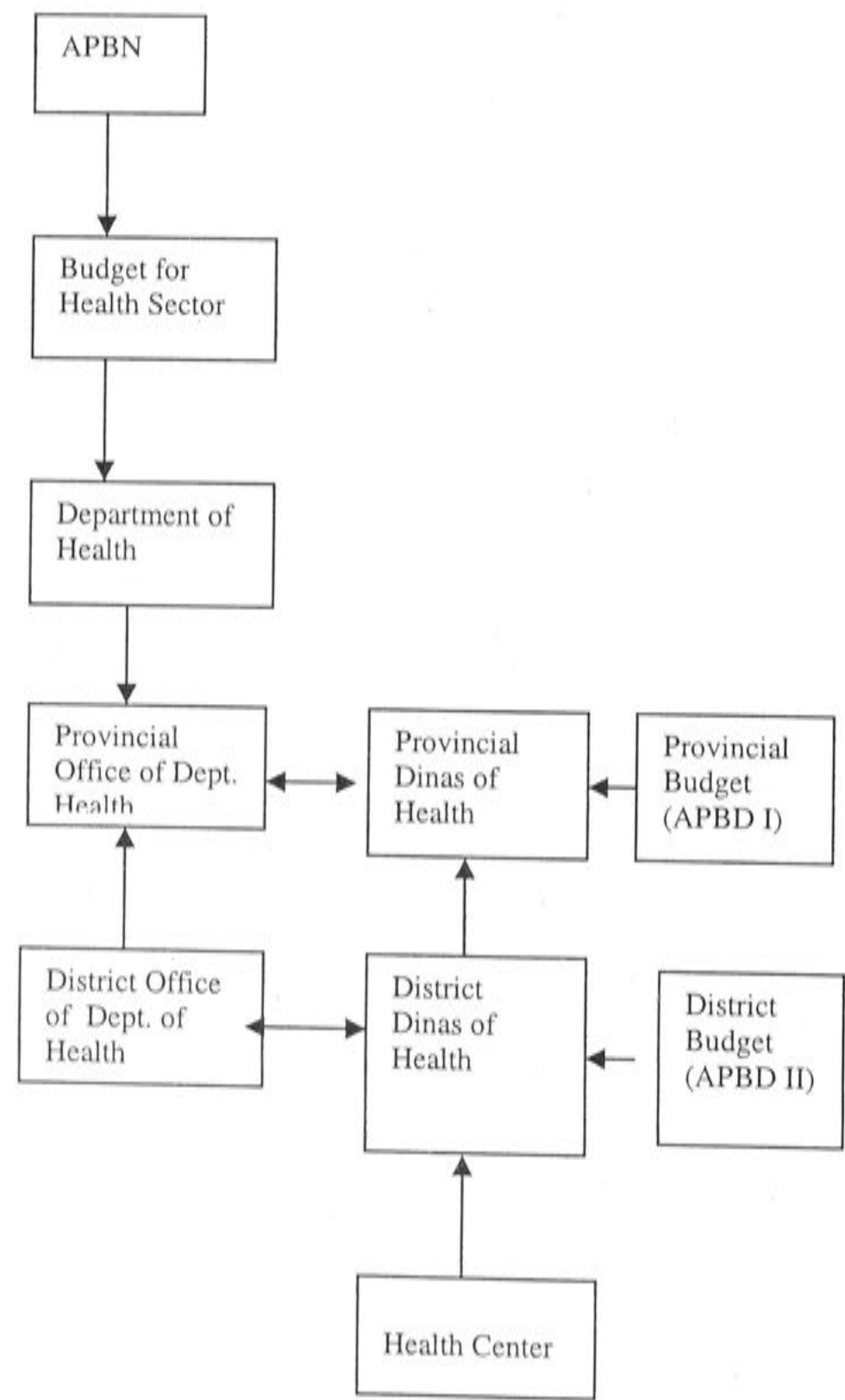
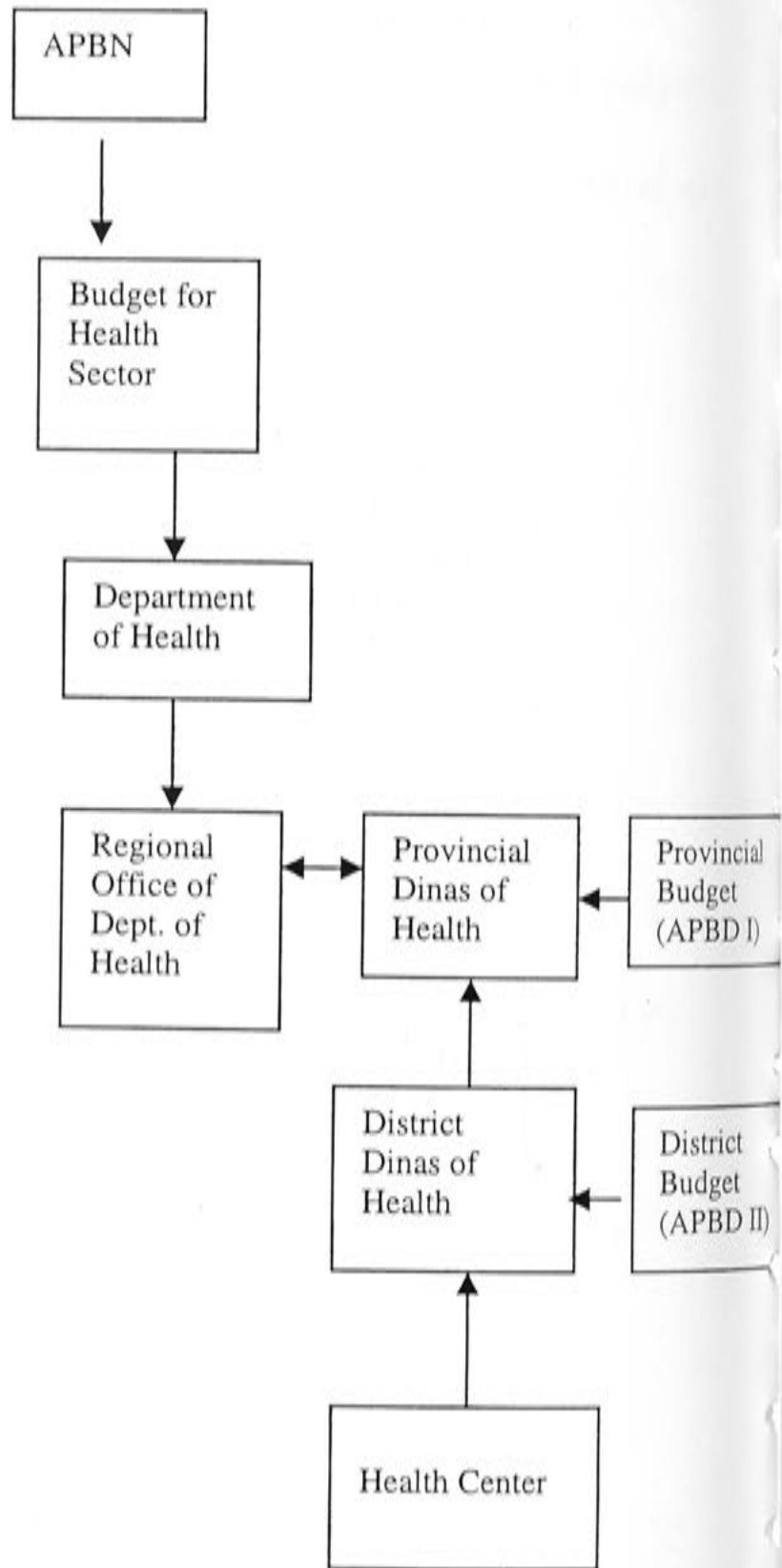


Figure 7.4. Programming and Budgeting Procedures before and After HP III

Before HP III



After HP III



Decentralization as Administrative Expansion

In both cases, it was clear that the decision to decentralize was primarily motivated by the need to maintain and expand the government's ability to provide public services. The drop in oil revenues significantly reduced the ability of the central government to continue financing local services. The gap needed to be filled through the mobilization of local resources. Therefore, in both cases, the focus was on shifting fiscal responsibility over the provision of local services to local authorities.

The need to make local authorities the autonomous providers of local services did not seem to be important to those central ministries because the perception that local government only implemented decisions made by the centre was still strongly held in the Indonesian bureaucracy. Law No. 5 of 1974 made local governments subordinate to the centre. This perception shaped the way they defined decentralization. Decentralization was regarded as a reliable means for gathering information about needs and an effective method for delivering services to local communities. But the authority to make decisions, therefore, remained at the centre. This practice did not seem to be opposed by local governments for they believed their main task was to support the achievement of national goals. Moreover, their performance was assessed by the centre based on their contributions to the achievement of national targets.³⁰

Public officials also tended to believe that effective and efficient provision of public services could be achieved through better integration of the three levels of government. Decentralization was seen as a means of integrating administration at those three levels. In this sense, the idea of autonomous local government contradicted this belief. Moreover, the

³⁰ In his directives during the dissemination of the pilot project on decentralization in LAN in 1997, Yogi S. Memet, the Minister of Home Affairs, clearly stated that the function of the district government was to implement policies set by the center, and the function of the provincial government was to supervise the execution of the policies by local authorities.

political environment during the New Order government caused bureaucrats to neglect the importance of promoting the role of local councils in local decision-making and the need to establish mechanisms for ensuring that government services were in conformity with local needs and preferences.

Chapter VIII

Decentralization in the Post-New Order Era

This chapter discusses Indonesia's experience implementing decentralization in the post-New Order Era. This chapter analyses how the failure of Suharto's government to devolve power affected the concept of decentralization introduced in the post-New Order Era. As previously discussed, the fall of Suharto's regime allowed the opening of a new chapter in the history of decentralization in Indonesia. The lifting of authoritarian constraints allowed the regions to openly raise their demands for broader regional autonomy and even independence in some parts of the Outer Islands. To counter such demands, President Habibie's government issued Law No. 22 of 1999 on regional government to replace Law No. 5 of 1974. This law required that broad-ranging power be shifted to district authorities. In addition, the government also issued Law No. 25 of 1999 on fiscal balance that allowed regional governments to retain a substantial share of revenues produced in their regions. These two laws triggered a major institutional reform that could be expected to affect the relationships between the centre and the regions and between the government and society.

Circumstances following the fall of Suharto made the country adopt a "big bang" approach to decentralization. Suharyo (2003:1) considers this as the right choice given the long time reluctance of the central government to devolve real authority to regional governments during the New Order Era. In January 2001 the government commenced implementation of the regional autonomy policy, despite the fact that hundreds of regulations necessary for implementation were still being prepared. Six weeks later, the

government, now led by President Megawati Soekarnoputri, announced that the two laws were to be amended for they might jeopardize national integration. This announcement triggered debate between the nationalists who supported the government's plan to revise the laws and scholars who wanted a chance for the two laws to be implemented. While the legislation may have had its shortcomings, the decision to revise the law only a few weeks after it came into force was seen as an indication of the government's half-hearted approach to regional autonomy.

Indonesia is still in its early stage in implementing political decentralization. Problems associated with the implementation of decentralization have been widely exposed. The program, nevertheless, has resulted in a more balanced relationship between the centre and the regions. Euphoria following the lifting of central control has been evident, but regional autonomy has contributed to the promotion of democracy and encouraged people's participation in local decision-making.

Background of the Decentralization Program

The end of Suharto's rule gave rise to widespread demands for democracy and empowerment, including broader regional autonomy. Strongest demands for autonomy have mostly come from provinces rich with natural resources such as Aceh, Riau, East Kalimantan and Papua (formerly Irian Jaya). In Aceh and Papua, the aspirations for broader autonomy spurred political and armed conflicts. In other provinces, regional pressures were still limited to political demands. But this did not rule out the possibility of more regions adopting a tougher stance against the central government, if the government did not show its commitment to regional autonomy.

To prevent the country from splitting up as a consequence of separatism, the MPR issued its decision No. XV of 1998 on Regional Autonomy, Revenue Sharing and Fiscal Relations within the Framework of the Unitary Republic of Indonesia. This decision promised broader autonomy to the regions and fair revenue sharing between the centre and the regions. In an attempt to win public support, President Habibie, who succeeded President Suharto, immediately drafted the bills necessary for implementing the MPR's decision.

At the same time, the issue of regional autonomy had also triggered a debate between the supporters of federalism and those who wanted to retain the unitary system. The supporters of a federal system mostly came from the Outer islands.¹ But some prominent Javanese leaders also showed their support for federalism. The chairman of the National Mandate Party (*Partai Amanat Nasional*, PAN) Amin Rais and the former Minister of Finance Mar'ie Muhammad were among those who openly called for consideration of a federal system. Amin wanted to consider federalism as a long-term objective of Indonesia, the first step of which would be giving broader autonomy to the regions.² Mar'ie, however, saw the establishment of federal state as an urgent necessity to dissolve growing tension and upheaval in the regions. A loose federal system could accommodate the spirit of regionalism and provide a political solution to regional unrest which, unless given an outlet, could lead to unilateral action that would break up Indonesia.³

¹ In October 1999, the provincial legislative body of East Kalimantan urged the central government to form a federal state. People in Riau Province were split into two groups: those who demanded a federal system and those who wanted independence. Students from South Sulawesi also marched on the street to demand a federal system.

² *Republika*, 3 September 1999, 'Indef: Broader Autonomy as the First Step to Federalism'; *Jakarta Post*, 18 November, 1999, 'Amin says federal state remains a viable option'..

³ *Jakarta Post*, 6 May 1999, 'Mar'ie sides with the federalist camp'.

Supporters of the unitary system mostly came from the nationalists and the military. They argued that a federal system could be the first step to national disintegration because federalism might instigate the emergence of sub-nationalism, which may challenge the unity of the nation. Minister of Defence General Wiranto and the chairman of the Indonesian Democratic Party- Struggle (*Partai Demokrasi Indonesia-Perjuangan* or PDI-P) Megawati were among the main supporters of the unitary system.⁴

Such political circumstances made President Habibie's government introduce political decentralization through the enactment of Law No. 22 of 1999 on Regional Government. The concept of decentralization introduced in Law 22 of 1999 differs greatly from those introduced earlier, which focused more on administrative decentralization. In addition, the government introduced fiscal decentralization through the issuance of Law No. 25 of 1999 on fiscal balance. This law gives the regions a better share of revenues collected in their regions. It was aimed at addressing regional demands for a fair share of revenues between the centre and the regions.

Law No. 22 of 1999 on Regional Government

Law No. 22 of 1999 was basically designed for the establishment of a democratic system of local government. In Article 1 of this Law, decentralization is defined as the transfer of authority to autonomous regions. Regional autonomy is no longer defined in terms of the responsibility to support national development, but in terms of the rights of the regions to make decisions over responsibilities falling within their jurisdictions. This

⁴ Kompas, 3 May 1999, Federalism is impossible, and Republika, 14 December 1999, the Position of the Military in Regional Autonomy Era.

indicated the government's intention to shift its policy from transferring administrative authority to the transfer of political power to the regions.

Under Law 22, the power was largely transferred to the districts (kabupaten and kotamadya), by passing the provinces.⁵ The goal was to empower the district governments. Article 2 of this Law establishes two levels of autonomous government, at the provincial and the district levels. Unlike Law No. 5 of 1974, the relationship between the two levels of government is no longer hierarchical. (Article 4 (2)). As a consequence, the terms "first" and "second" levels are no longer used in Law No. 22.

Law No. 22 defines an expanded role for the regional governments. As stipulated in Article 7 of this Law, all functions except those reserved for the central government are decentralized to the regions. The authority reserved for the central government includes foreign relations, national defence and security, monetary and fiscal affairs, religion and policy formulation on macro-economic development planning, state economic institutions, development of human resources, the exploitation of strategic natural resources and the use of high technology.

In contrast to Article 7 which gives authority to exploit strategic natural resources to the central level, Article 8 empowers the regions to manage national natural resources within their territories, including those related to exploration, exploitation, conservation and management of marine resources. It seems that this article was added in response to regional demands for more control over their natural resources. But such a contradiction became a source of conflict between the central and regional governments, as the Law did not clarify the meaning of "strategic" in this context.

⁵ The term 'region' covers both provinces and districts.

Law No. 22 also limits the scope of authority in the provinces. In Article 9 it is stated that the provinces are given authority to administer cross-district matters and any field, which is currently beyond the capacity of a particular district to handle. As the provincial government also functions as an administrative unit, the provinces are also responsible for exercising central authority given to the Governors. The authority of the districts, according to Article 11, is residual. But the districts are expected to carry out as a minimum the functions of public works, health, education and culture, agriculture, communications, industry and trade, investment, environment, security, cooperatives and labour force. This Article was probably intended to ensure that those functions were decentralized to the districts, even in cases where managerial capacity is limited. Previously, most of those functions were held at the provincial level.

Law No. 22 strengthens the power of the regional councils (DPRD) at both provincial and district levels. This body, according to Article 18 of the Law, is empowered to elect and, if necessary, discharge the regional head and deputy regional head. The DPRD, together with the regional head, prepares policies at the regional level and promulgates regional legislation (*Peraturan Daerah - Perda*). The DPRD's approval is necessary for regional annual budget allocations (APBD).⁶

The DPRD is also empowered to supervise the implementation of regional policies, including the implementation of regional legislation and regional revenue and expenditure budgets and the implementation of international cooperation in the region concerned. To exercise its supervisory function, the DPRD is given the power to express opinions, propose regional legislation and stipulate budget expenditure.

⁶ Under Law No. 22 of 1999, the central approval for APBD is no longer needed.

Law No. 22 also makes the DPRD the principal agent for accountability in the region. Article 19 of this Law empowers the DPRD to require the accountability of the regional head, to seek information from the regional head and conduct investigations into the implementation of regional policies.⁷ Article 20 paragraph (1) of Law No. 22 also empowers the DPRD to call people to provide it with information. Government officers or members of the community refusing the request as intended in paragraph (1) can be imprisoned for a maximum period of one year for contempt of the DPRD. Procedures for exercising those powers are to be prepared by the DPRD and should be included in the DPRD's *Tata Tertib* (Code of Conduct).

The DPRD elects a regional head and a deputy regional head for a five-year period through a democratic process – in contrast to the old system under which the formality of an election in fact disguised the reality of appointment. The two candidates who obtain the most votes are appointed the Head and Deputy Head of the Region. After completing their term in office, the regional head and his or her Deputy may be elected for the second time. The regional head and deputy regional head are sworn in by the President or another official on behalf of the President. It is not clear what would happen if the President refused to swear in a Governor or *Bupati*-elect.

Article 43 defines the responsibilities of regional head, which includes ensuring national integration, enforcing laws and regulations, maintaining order, proposing bills for regional legislation and, with the approval of the DPRD, promulgating regional legislation. Article 44 empowers regional heads to lead the implementation of the government's functions in the region, based on policies approved by the DPRD.

⁷ See also Articles 44.

In performing his or her duties and authorities the regional head shall be responsible to the DPRD. An accountability report should be presented to the DPRD at the end of the fiscal year. In addition, a regional head needs to present his or her accountability report on special cases as requested by the DPRD (Article 46). The regional head is also obliged to report on the implementation of his or her duties to the President through the Minister of Home Affairs once a year or as requested by the President.

Law No. 22 gives the regional administration authority over the management of the regional bureaucracy. In Article 68 it is stated that regional administrations decide the structure of regional government organization, based on guidelines provided by the central government. In Article 76, it is also stipulated that the regions have the authority to recruit new staff, appoint them, assess their performance, promote them, pay their salary and allowances, and improve their capacity through training programs. The implementation is to be detailed in a government regulation.

As previously mentioned, Law No. 22 gives the regional head the authority to promulgate regional legislation, with the approval of the DPRD. In article 70, it is stipulated that legislation issued by regional governments should not be in conflict with national interests, other regional legislation and regulations issued by a higher level of government. It is not clear in the Law whether the central government could revoke legislation issued by the regions.

Law No. 22 requires the formation of the *Dewan Pertimbangan Otonomi Daerah* (Advisory Council for Regional Autonomy, DPOD). Its membership consisted of the State Minister for Regional Autonomy, the Minister of Home Affairs, the Minister of Finance, the Minister of Defence, and the State Minister for the Utilization of the State Apparatus, the State Secretary, 3 representatives of regional associations and 6 regional representatives.

This committee is given the task of advising the President on: a) the formation, the abolition and amalgamation of regional governments; b) fiscal relations; and c) regional capacity to carry out decentralized functions. In carrying out its tasks, this committee is assisted by a secretariat, which is responsible to the chairman of the DPOD.

Law No. 25 of 1999 on Fiscal Balance

As previously mentioned, Law No. 22 was accompanied by Law No. 25 on Fiscal Balance. Under this Law, all transferred functions are the financial responsibility of the regions through their expenditure budgets. This expenditure, according to Article 5, is to be financed from the following sources: the region's own revenue (*Pendapatan Asli Daerah* or PAD), the equalization fund (*Dana Perimbangan*), loans and other legitimate revenues. Own revenue here includes revenue from local taxes and levies, profits made by regional enterprises and other legitimate sources. The equalization fund consists of shared taxes, general grants (*Dana Alokasi Umum* or DAU) and special grants (*Dana Alokasi Khusus* or DAK) for special programs.

This law also specifies the formula for sharing revenues between the different governments. This sharing formula was basically introduced to address the aspirations of the resource-rich regions to enjoy a greater share of revenue derived from their resources. As previously discussed, following the fall of Suharto protests had escalated in Aceh, Riau, East Kalimantan and Irian Jaya over the perceived unfair distribution of revenue by the central government. In response to these demands, the central government agreed to provide the regions with a significant share of revenue derived from their resources.

Under this law, regional governments retained 90 percent of revenue from land building tax and 80 percent of revenue from logging, mining and fishing activities. In

addition, they would also get 15 percent of revenue after tax from oil and 40 percent from natural gas. Besides this, the regional government would also control about 40 percent of funds for forestation.

At the same time the law was also designed to ensure that resource-poor areas were able to share in national development. Article 7 of this law stipulates that at least 25 percent of the national budget should be redistributed to the regions (22.5 percent is for the regencies/municipalities and the remaining 2.5 percent for the provinces) for the purpose of equalization. This general grant (DAU) is given in the form of a block grant. The distribution of this fund is to be determined by DPOD based on the needs and economic potential of the regions.⁸ The detailed formula is to be specified in a government regulation.

As stipulated in Article 8, the central government also provides a special grant (DAK). This fund is intended to finance projects that are considered of high priority from the national perspective, such as reforestation and compulsory education. This type of grant needs a matching budget from the regional government.

The law has raised concerns about the increasing inequality between regions. An official from the National Development Planning Agency (Bappenas) calculated that if the Law were applied, the four resource-rich provinces would make enormous gains, while 10 provinces would face bankruptcy. But, an official of the Department of Finance argued that through DAU the central government could ensure that a minimum level of public service would be provided in each district.⁹

⁸ DPOD plays a limited role in the distribution of DAU. The distribution is actually done by the Ministry of Finance, in cooperation with the Ministry of Home Affairs, based on survey conducted by a number of universities.

⁹ Kompas, 27 August 1999.

Initial Implementation of Regional Autonomy Plan

Following the enactment of Law No. 22 of 1999 and Law No. 25 of 1999, general elections were held for members of legislative bodies at national and regional levels. In October, the MPR was formed. Following its formation, this supreme body elected Abdurrahman Wahid as the fourth President of Indonesia, to replace President Habibie.

To show his strong commitment to regional autonomy, President Wahid included in his cabinet the position of the State Minister for Regional Autonomy, responsible for preparing the necessary arrangements for implementing regional autonomy. In addition, he appointed Ryaas Rasyid, the main drafter of Law No. 22, to the newly created position.

Since Law No. 22 was not sufficient to provide a legal basis for implementing regional autonomy, Ryaas' first task was to coordinate the preparation of more than 200 new regulations to enforce the laws. Besides this, he also had to amend many other laws to synchronize them with the implementation of regional autonomy. At the same time, the Minister of Finance, Bambang Sudibyo, also prepared five regulations to enforce Law No. 25 on fiscal balance. Those regulations clarify formulae on sharing profits from natural resources and on cross-subsidies from resources-rich regions to less developed ones.

Up to December 1999, little progress had been made on preparations for the regional autonomy program. Meanwhile, the regions were impatient to exercise their authority. Some non-governmental organizations openly criticized the government for being tardy in its preparations to implement the regional autonomy plan.¹⁰ In December 1999, the parliament also urged the government to implement regional autonomy to minimize the threat of national disintegration and separatist activities.

¹⁰ For example, the Community of West Kalimantan and the Council of Bishops.

In response, the Central Government announced its decision to double its grants to the troubled provinces of Aceh, Riau and Irian Jaya. In February 2000, the government stated that the regional autonomy plan would be implemented in April 2000, although most of the supporting regulations had yet to be prepared. A few months later, the Government postponed the implementation of Law No. 22 of 1999 to September and then to January 2001.

Despite the deadline of January 2001, Ryaas indicated that the implementation would partly depend on the readiness of the regions to carry it out. A full implementation of regional autonomy would be conducted in provinces and regencies if, from the perspective of their human resources and managerial skills, they were prepared.¹¹ Laode Ida, a researcher from the Center for Regional Development Studies (PSPK) suggested that the government set a timeframe for the transitional phase in implementing the regional autonomy law.¹²

In April 2000, President Wahid signed a decree on the formation of the DPOD. This committee was in charge of providing advice to the President and Parliament on the formation of new autonomous units. The implementation of regional autonomy had also provided some impetus for communities and ethnic groups to demand separate provinces or district status. By the end of year 2000, four new provinces and almost 40 new districts had been formed.¹³

At the same time, the President also signed decree No. 52 of 2000 on the Coordinating Team for the Implementation of Law No. 22 of 1999 and Law No. 25 of 1999.

¹¹ Jakarta Post, 6 March, 2000, 'Regional autonomy not as easy as it sounds'.

¹² Jakarta Post, 1 May 2001, 'Regional autonomy needs transitional period: researchers'.

¹³ Demands to have a separate province were first raised in Gorontalo, Kepulauan Riau and Bangka-Belitung in the early 1960s. During Suharto's rule, these demands were effectively neutralized. While the Law on the formation of Gorontalo and Bangka-Belitung provinces was signed in 1999, the Law on the formation of Kepulauan Riau province was adopted in October 2002.

The State Minister for Regional Autonomy chaired this team and its members consisted of high-ranking officials from all related ministries. This team was responsible for preparing the strategy for the implementation of the two laws, drafting supporting regulations for implementing them and monitoring the progress of implementation. This team would report directly to the President.

In May 2000, one year after the enactment of Law No. 22, the government promulgated Government Regulation No. 25 of 2000 on the authority of the central and provincial governments. This was the most crucial and long-awaited regulation for it would provide the basis for local governments to exercise their authority.

Unfortunately, this regulation failed to clarify the division of power between the different levels of government. All activities to be performed by the central and provincial government are listed in this regulation, but it is not clear what powers are actually being devolved to the district level. Moreover, responsibility over most sectors is shared. Meanwhile, it is not clear how the coordination should be done. As a scholar noted, the regulation fails to clarify where the power to govern lies.

Another problem with this regulation is that it expanded the role of the central government in almost every sector. In this regulation, the authority of the central government to formulate national norms and standards is interpreted as the obligation of the central government to provide detailed guidelines for the implementation of all activities taking place in the regions. Those guidelines obviously reduce the autonomy of the districts. Besides, it was very unlikely that those guidelines could be made available by the target date of 1 January 2001.

In August 2000, President Wahid reformed his cabinet and merged the Office of the State Minister for Regional Autonomy with the Department of Home Affairs. Under this

new arrangement, the responsibility to coordinate the implementation of the regional autonomy plan was given to the Minister of Home Affairs and Regional Autonomy Surjadi Sudirdja.

To some scholars, the closure of the State Ministry of Regional Autonomy indicated that the Government did not consider regional autonomy a priority. The Central Government's half-hearted approach to regional autonomy policy was also underlined by the appointment of Surjadi Sudirdja – a retired military officer - as the Minister of Home Affairs and Regional Autonomy because he did not seem to support the implementation of regional autonomy policy.¹⁴

To ensure that the regional autonomy plan would be effectively implemented, Ryaas Rasyid, who was appointed the Minister for the Utilization of the State Apparatus (Men.PAN), proposed the formation of a special constitutional body. This body, according to Ryaas, could act as a propeller engine to boost sectoral decentralization. It could take the form of a decentralization council, whose members would come from government ministries. The council would prevent centralistic ambitions in the bureaucracy and cut the red tape to bring about concrete and effective changes. Ryaas's proposal was, however, rejected by President Wahid. Instead, he established the Directorate General of Regional Autonomy within the Department of Home Affairs to take up the tasks previously performed by the State Ministry for Regional Autonomy. Differences between President Wahid and Ryaas Rasyid on the way to pursue regional autonomy policy finally led to Ryaas' resignation from the cabinet.

¹⁴ In a press conference held in Jakarta 19 March 2000, Surjadi Sudirdja emphasized that most regions were unprepared, and they even did not know what regional autonomy was (see also Media Indonesia, 20 March 2000).

In late September 2000, President Wahid signed Government Regulation No. 84 of 2000 on the guidelines on the structure of regional governments. This regulation provides another deviation from the original intention of Law No. 22. In Article 68 of the Law, it is stated that regions have authority to decide the design of their organization, based on the distinctive needs and conditions of their regions. To the contrary, Government Regulation No. 84 of 2000 encouraged the establishment of a uniform structure for regional administrations.

Government Regulation No. 84 of 2000 introduces a "one size fits all" hierarchy for regional officials. At the provincial level, the top position is the Provincial Secretary at *eselon* Ia.¹⁵ Below the Provincial Secretary are the heads of provincial Dinas at *eselon* IIa. At the district level, the top position is the District Secretary, at *eselon* IIa. Below the Secretary are the heads of District Dinas at *eselon* IIb.

This regulation was criticized for it did not take into account the different sizes of provinces and districts. For example, the secretaries for Mojokerto Municipality with 100.000 citizens and Surabaya Municipality with almost 3 million residents have the same status. Clearly the task of the Secretary of the metropolitan city of Surabaya is much more complex than that of the Secretary of the town of Mojokerto.

The lack of logic in the regulation is best illustrated by comparing a small province with a large city. The entire Province of Bengkulu is smaller than the City of Surabaya, but the rank or *eselon* of the Secretary of Bengkulu Province is higher than that of Surabaya Municipality.¹⁶

¹⁵ Administrative positions in the Indonesia's bureaucracy are stratified into five levels of *eselon* (*eselon* I, *eselon* II, *eselon* II, *eselon* IV and *eselon* V). Each *eselon* is differentiated into two classes, A (senior) and B (junior). *Eselon* I is the highest *eselon* and *eselon* V is the lowest *eselon*.

¹⁶ See Discussion Paper No. 14 on Guidelines for Organizational Planning, Program on Capacity Building, Asian Development Bank in cooperation with University of Canberra, SMEC International and PT Intersys.

Following the promulgation of Regulation No. 84 of 2000, all district authorities rearranged their organizational structures. A number of new working units (*dinas*, *badan* and *kantor*) were formed in many districts to take up the tasks previously performed by the field offices of the central and provincial governments. Regulation No. 84 did not set a limit on the number of working units to be formed, and therefore, there was great concern in the centre that the regions would establish more units than they really needed.

The evidence available shows that following the rearrangement the number of working units in many districts, especially in the Outer Islands, tended to increase. Kabupaten Minahasa, for example, established more than 20 service units (*dinas*) and a dozen of offices (*kantor*) and agencies (*badan*). But districts in the Central Java and in the Special Province of Yogyakarta tended to down size. Kabupaten Kudus, for example, only had 7 *dinas* and 9 other working units (see table 8.1)

Tabel 8.1. Number of District Working Units before and after Decentralization

No.	District	Before	After	Change
1.	Minahasa (North Sulawesi)	20	34	14
2.	Bolaang Mangondow (North Sulawesi)	16	25	9
3	Gorontalo (Gorontalo)	13	25	12
4.	Banjarmasin (South Kalimantan)	25	33	8
5.	Sanggau (West Kalimantan)	18	25	7
6.	Magetan (East Java)	22	26	4
7.	Kudus (Central Java)	16	16	0
8.	Karo (North Sumatra)	15	19	4
9.	Simalungun (North Sumatra)	39 ¹⁷	28	-11

Source: Smeru Field report, 2002.

Government Regulation No. 84 of 2000 also upgraded the status of the head of a *dinas* from *eselon* III to II. Such an upgrading has caused the number of *eselon* II positions

¹⁷ This number may not be accurate because Simalungun is only a small district. Even larger district such as the City of Banjarmasin had only 25 working units before decentralization.

in each district to increase from 1 to a range of 15 to 36.¹⁸ As a consequent, the number of *eselon* III and IV positions also grew significantly.¹⁹ As the holders of *eselon* positions are entitled to position allowances ranging from Rp 140,000 to Rp. 3.5 million per month, the policy to upgrade the status of *dinas* had caused local government payrolls to increase.

To cut the red tape in the provision of public services, Government Regulation No. 84 abolished *eselon* V (the lowest *eselon*) at the district level. Unfortunately, the implementation of this policy created more inefficiency. Most *eselon* V positions were actually upgraded to *eselon* IV, although many of them were too small to have an *eselon* IV status. This created the problem of inequality for the holders of these newly upgraded positions who were on a much higher monthly allowance, despite the fact that they still performed the same tasks. This also added to the increase in the budget for personnel.

Government Regulation No. 84 was accompanied by the Presidential Decree No. 61 of 2000 that set the schedule for the closure of the central government's regional offices in all districts. Following the issuance of this decree, most field offices of the central departments and agencies were abolished and their tasks as well as staff were transferred to related units under provincial and district governments. By the end of 2000, almost 2 millions central civil servants, including school teachers and medical staff, had been transferred²⁰ This has a significant impact on the local government payrolls.

In addition to Regulation No. 84, the central government introduced in October 2000 Government Regulations No. 96 to 101 related to the management of civil servants. In contradiction to Regulation No. 84, these regulations give the regional heads full authority

¹⁸ Based on data available in the State Ministry of the Utilization of the State Apparatus.

¹⁹ Each *dinas* head supervises three to four sub-*dinas* heads, and each sub-*dinas* head supervises three to four section heads.

²⁰ They did not physically move for they had been in the regions, but working in the field organizations of the central departments and agencies.

to manage their own personnel. Under regulation No. 96 of 2000, regional heads are fully responsible for defining *formasi* (size of local government), recruiting new personnel, appointing staff, assessing performance, promoting staff and paying salaries and allowances.

To implement Law No. 25, the Department of Finance issued Government Regulation No. 104 on fiscal balance in November 2000. This regulation defines the detailed formula for sharing revenues from the exploitation of natural resources in the regions. It also defines the formula for calculating the amount of general grant allocations (DAU) to each province and district. In addition, the government also issued its regulation No. 105 of 2000 on financial management and accountability for the transferred activities. This regulation provides the detailed procedures for preparing and implementing the annual revenue and expenditure budget (APBD). It also stipulates mechanisms that can be used by the DPRD in controlling the implementation of annual budgets by the executive. Besides these, the government also issued Regulation No. 106 of 2000 on financial management and accountability for the deconcentrated activities.

At the same time, the government issued Regulation No. 108 of 2000 on the Form of Accountability of the regional head. Some provisions of the regulation appear to be deliberately contrary to Law No. 22, perhaps in an effort to overcome some serious problems being faced by a large number of regions across the country, where the DPRD were not taking their duties as supervisors on behalf of the electorate seriously, but appeared intent merely on opposing the incumbent Head of the Region.²¹

²¹ Following the enactment of Law No. 22 of 1999, DPRD in most regions the DPRD tended to find fault regional head's accountability report.

Regulation No. 108 of 2000 requires the regional head to present a report on the implementation of the budget (APBD) in accordance with the Region's Strategic Plan (*Rencana Strategis* or Renstra) to the DPRD. This report should be read in a plenary session within three months of the end of fiscal year.²² The DPRD has one month to evaluate it. The DPRD can reject the report on the ground that the budget deviates from Renstra. The decision to accept or reject is made in a plenary session that must be attended by 2/3 of the members. Any decision to reject the report must be carried out by a 2/3 majority, which must include at least one member from each faction.²³ If the report is rejected, the regional head has 30 days to improve the report. The improved report is evaluated by the same procedure.

When a majority of less than 2/3 votes to reject the annual accountability report, a mediator (Independent Commission) is needed. This Commission is an independent panel formed by the Minister of Home Affairs in the name of the President, or by the Governor in the name of the Minister, whose task is to investigate the reasons why the DPRD rejected the accountability of the Head of the Region.

If the report is still rejected, the DPRD can recommend that the regional head and his deputy be dismissed. Upon receiving such a recommendation, the president or governor would form an independent commission of enquiry (*komisi penyelidik independent*), consisting of local experts who are non-partisan, and acknowledged by the community. If the commission finds that the DPRD decision is not in accordance with the applicable

²² Renstra contains a regional vision, mission, objectives, strategies, programs and activities. It is prepared shortly (one month) after the elections based on policies agreed between the DPRD and regional head.

²³ The figure of 2/3 quorum comes from article 50 of Law No. 22 of 1999, which applies not to accountability but to meetings on the dismissal of regional head. The requirement of obtaining the support of at least one representative from each faction will be a significant restriction.

stipulations, the decision is overturned and the DPRD must rehabilitate the good name of the regional head. There is no provision to challenge the decision of the commission.

Regulation No. 108 also requires the regional head to present his or her report to the DPRD no later than two months before the end of his term of office. The scope of the report, according to Article 7 of the regulation, should cover performance of his or her duties in general governance and in development during the whole period of his office, measured against the Renstra. The DPRD has one month to evaluate the report. If they have not completed the evaluation in one month, the report is to be taken as accepted. If the DPRD finds that performance falls short of the Renstra then the DPRD may reject the report. As for the annual report, the decision is made in the plenary session that must be attended by 2/3 members and any decision to reject the report must be carried by a 2/3 majority, which must include a member of each faction.

Regulation No. 84 also provides for the regional head to present his or her accountability report on specific issues to the DPRD. The regional head or the deputy may prepare this report on his or her own initiative, or at the request at least 1/3 of the members of the DPRD. The regional head may be called before the DPRD. Within one month of receiving the explanation, the DPRD must conduct a meeting to debate it. The DPRD can form a special committee (*panitia khusus* or Pansus) to examine the statement, and on the basis of the committee's findings, the DPRD may decide to accept or reject it. If the DPRD rejects it, it hands the matter over to the appropriate parties. Permission to initiate criminal investigation must be obtained from the President for Governors and or Department of Home Affairs for Bupati and Walikota. If the regional head and deputy are charged as suspects, they are to be temporarily suspended. If they are then found guilty, they are to be

dismissed, but if not guilty they are to be restored to the office and their good names rehabilitated.

The Beginning of the Regional Autonomy Era

In January 2001 the government entered a new era with the implementation of the regional autonomy policy. The policy was greeted mostly by pessimism at the national level, as officials feared that it would lead to a period of bureaucratic chaos. The chairman of the MPR Amien Rais, for example, said that he was pessimistic as he predicted the pitfalls ahead. Ryaas Rasyid, who drafted the regional autonomy law, also predicted the policy would be counterproductive because most regions were not sufficiently prepared to run autonomous administrations.²⁴

Despite the apparent pessimism in Jakarta, regional administrations were very optimistic about the new regional autonomy policy. A speaker of the local council in West Sumatera, for example, stated that his office was ready to face its new responsibility. But Ramlan Surbakti, a political scientist at Airlangga University in Surabaya and a member of Ryaas' team that drew up the initial autonomy law, warned that the regions might face the problem of inadequate human resources in their rush to obtain more control over their affairs. As previously discussed, well-trained civil servants usually work for the central departments or agencies.²⁵

In line with the implementation of regional autonomy, the central government allocated funds to the regions to finance their administrations, including civil servants' wages and development programs. The amount of DAU allocated to the regions for the

²⁴ Jakarta Post, 2 January 2001, 'Pessimism Greeted Regional Autonomy on Day One'.

²⁵ Jakarta Post, 30 December 2000, 'All 364 regencies prepared for regional Autonomy: Apkasi'.

fiscal year of 2001 reached Rp 60.5 trillion. In addition to DAU, the government also allocated special funds to accelerate the implementation of prioritized programs such as education and reforestation.

The first few weeks of implementing the autonomy law was characterized by complete uncertainty, misperception and confusion among all parties on the direction of the decentralization process. For example, there was uncertainty about the future career of the central administrative staff, who had previously worked for the regional offices of the central departments in the provinces and districts.²⁶ Officially the regions should employ them. However, the regions made it clear that those who represented the central elite were not welcome to join the local bureaucracy. As a compromise, some position including the position of the deputy chairman, were then created in each dinas for the transferred staff.²⁷ There was also confusion in some regions about how they would pay the salaries and allowances of civil servants working for the local bureaucracy. Previously, all civil servants expenses were paid by the central government through its SDO scheme²⁸ while local own revenue was spent only for development activities. Under Law No. 25, the SDO scheme was abolished and central subsidies were channelled through DAU. But in some districts, the amount of DAU they received was much lower than their expenses for civil servants because DAU was intended to fill the gap between local expenditures and revenues without taking into account additional salaries. This meant that the districts would have to spend part of their own revenue for personnel. Regional administrations regarded this policy as unfair and refused to pay the transferred staff. Finally, additional subsidies were given to ensure that all civil servants were paid. In addition, 1.2 million of elementary school

²⁶ School teachers and medical staff were automatically employed in their former schools or hospital.

²⁷ Based on interview with Mr. Suryanto, the former Deputi to the State Minister for the Utilization of the State apparatus.

²⁸ SDO is subsidy for autonomous unit (see Chapter IV).

teachers were still paid through SDO. Therefore, in the fiscal year 2001 local government payrolls grew only by approximately 46 percent (World Bank, 2003:14). Salary payment, however, increased by 321 percent in North Sumatra Province, 258 percent in East Nusa Tenggara and 255 percent in West Nusa Tenggara (Suharyo, 2003: 6).

In the fiscal year 2002, local government payrolls increased dramatically, as local authorities had to pay salary and allowances for all local civil servants. In addition, the government policy to consolidate “the cost of living allowance” with the basic salary that resulted in salary increases from 14 to 30 percent had also caused the budget for personnel to further increase. The impact of those policies to local budgets has been significant, especially in small regions with little income.²⁹ To reduce the burden, Dr. Darsono, the Director General of Regional Autonomy proposed that allowances in poor districts to be reduced by half. This idea was, however, rejected by other officials.³⁰

In most regions, the transfer of authority to the regional head over the management of civil servants has been abused. Following the introduction of this regulation, most districts wanted to recruit new staff, despite the fact that vacant positions could actually be filled by the transferred civil servants from the central and provincial governments. Kabupaten Kutai Kartanegara, which is rich with natural resources, planned to recruit 8617 new staff. Kabupaten East Flores, one of the poorest districts, wanted to have 2981 new staff (see Table 8.2). This tendency has raised concerns over the growing size of the

²⁹ As revealed by the Director General of Budget Anshary Ritonga in a meeting in the Department of Home Affairs in October 2001, total budget for salary and allowances of local civil servants and honoraria for member of local councils in some districts increased by ten-fold. See also Media Indonesia, 3 April 2002, Faisal isyaratkan rasionalisasi PNS.

³⁰ To reduce local government payrolls, Government Regulation No. 8 of 2003 was introduced to replace Government Regulation No. 84 of 2000. In this new regulation, the number of dinas at the district level was restricted to 14. In addition, the government also issued a circular that requires regional government to get approval from the centre in defining the size of local bureaucracy, including the number of new staff to be recruited.

bureaucracy. The central government finally decided to set quota on the number of new recruitment for every district and province. But some regions ignored such a policy. The province of Banten, for example, insisted in recruiting more than 900 new staff, despite the fact that this province could not afford to pay for the salary and allowances of those newly recruited staff.

Tabel 8.2. Recruitment of New Staff in Several Districts in 2001.

No.	District	Proposed	Quota
1.	Kutai Kartanegara	8617	200
2.	City of Kediri	4297	450
3.	East Flores	2981	100
4.	Kabupaten Natuna	200	350
5.	Kabupaten Kendari	1000	100

Source: the State Ministry for the Utilization of the State Apparatus

In most regions, the process of selection was never made transparent. This has become the concern of the community.³¹ In addition, the authority of the regional head to appoint staff to *eselon* positions has been abused in many regions. Regional heads tended to appoint their followers to strategic positions, without considering their experience and educational backgrounds. As a result, many district officials were not qualified for their positions. In Kabupaten Natuna, none of the staff working in the district treasury office has experience or training in financial management, and a graduate from political science chaired the district

³¹ Hundreds of complaints were sent to President through Tromol Pos 5000.

health office. In Kabupaten West Lombok, an elementary school teacher was appointed head of the district public works office. This tendency of appointing inappropriate people has raised concerns about the quality of local administration.

In most provinces, there has been pressure on the regional head to grant government positions to local people, regardless of the qualifications required. In some regions, the demand for granting positions to locals was extended to multi-national companies. In Riau, students broke into the Caltex headquarters several times to demand the appointment of natives of the province to some positions. In East Kalimantan, local people blockaded the only access to a mining site because they did not feel that the existence of this mining activity benefited natives of the region. This trend has put some mining companies in limbo, and had a negative impact on the campaign for wide regional autonomy.

In almost all regions, autonomy was perceived as the right of the regions to make policies at will. Many of those policies were in fact in conflict with the intention of regional autonomy. The policy to increase fees at local public health centres, for example, had reduced the access of the poor to health services. This was not in line with one of the objectives of regional autonomy, to provide better services to the community.

The government's step toward financial decentralization has also encouraged regional administrations to use their power to generate revenues by creating new taxes. In four districts in East and South Kalimantan, for example, taxes were levied on mining companies operating within their regions, aside from the list of taxes payable by the company under the Contracts of Works (CoWs) awarded by the Central Government to the companies. This policy was obviously in conflict with that set by the Department of Mining and Mineral Resources.

In East Java, many districts imposed a number of distribution taxes on goods moving in and out of the region. In Lampung, local administrators had also introduced distribution taxes on all goods entering from other provinces and those to be shipped or delivered out of the provinces. The imposition of such taxes, according to Soy Pardede of Kadin, had severely hurt local businessmen. Such taxes also created domestic trade barriers that would cost Indonesia the competitiveness of its product and impede growth of local and foreign investments. Trade barriers can create economic isolation among the regions, he said.³²

Regional governments' hunger for cash had also caused overexploitation of natural resources. In Riau, the provincial and district administrations were competing with each other to issue permits for sand quarrying, despite opposition from local fishermen because of environmental degradation.³³ In Irian and Kalimantan, for example, the district administrations issued legislation that permitted some companies to exploit forests. A million cubic meters of logs were sent out of the provinces. In January 2001, even before the implementation of regional autonomy, the central government revealed that millions of hectares of forest had been found to be either damaged or in a critical condition. This included national parks and conservation forests.³⁴

The fight to control natural resources had also increased tension among districts and between the different levels of government. In East Java, a group of fishermen called for a ban on fishing boats from neighbouring areas entering certain waters. Conflict occurred between Serang Regency in Banten and the Department of Transportation over the

³² Jakarta Post, 4 April 2001, 'Decentralization of fiscal rules threatens domestic trade'.

³³ According to the Minister for Fishery and Marine Resources, Rukhmin, Riau exported sand with the value of approximately Rp 2 trillions (US\$ 200 million) a year. From 80 percent to 85 percent of land reclamation in Singapore used sand from Riau. Singapore is estimated to need 1.8 billion cubic meters of sand in the next eight years. Demand is expected to increase with more reclamation projects already announced in Malaysia.

³⁴ Jakarta Post, 23 December 2000, 'Forests endangered by regional autonomy'.

management of Serang seaport. Meanwhile, Jakarta had a quarrel with the Tangerang District over the revenue received from Sukarno-Hatta international airport.

Six weeks after the formal implementation of the Regional Autonomy Law, the Minister of Home Affairs and Regional Autonomy, Surjadi Sudirdja, announced that the government and the House of Representatives would review it. In his announcement, he revealed that around 3000 regional rules had been issued. If more than 300 regencies and municipalities pursued different policies, he predicted that the existing problem would become more complex, and the administrative role of provinces would become important.³⁵

The plan to revise the regional autonomy law was strongly opposed by the district heads and local legislative councils. Most scholars also demanded that the Law be given a chance. Deddy Supriadi from Bappenas, for example, said that despite its shortcomings, implementing regional autonomy was inevitable.³⁶ However, the plan to restore some of the authority of the provinces was naturally supported by the provincial governments because Law No. 22 had significantly reduced their powers. Since the enactment of this Law, bupati and walikota had tended to disregard provincial policies.

The issue did not get much attention from President Wahid and the parliament, as conflict between them was escalating. Abdurrahman Wahid was finally dismissed from the presidency in July 2001.³⁷ The MPR then elected the Vice President Megawati as the fifth President of the Republic of Indonesia. In early August 2001, President Megawati formed

³⁵ Jakarta Post, February 2001.

³⁶ Kompas, 1 May 2001, 'Regional Autonomy needs transition period: Researchers'.

³⁷ The crisis began in early February 2001 when the DPR issued its first memorandum, accusing President Wahid of violating his presidential oath and failing to take vigorous measures to suppress corruption. On 30 April 2001 the DPR issued the second memorandum. For details, see ICG, Indonesia's Presidential Crisis, Indonesia Briefing, 21 February 2001 and Indonesia's Presidential Crisis: the Second Round, 21 May 2001[available at www.crisisweb.org].

her cabinet and chose retired lieutenant general Hari Sabarno as the Minister of Home Affairs.

Following his appointment, Hari Sabarno said that smoothing the shaky implementation of regional autonomy was one of his main priorities, including ensuring that regional autonomy would not break up the unitary state. He admitted that the new government under Megawati was very concerned about rising regional chauvinism. This was one of the reasons for revising the laws, he said.³⁸ This news did not come as a surprise, as President Megawati came from a strong nationalistic background. A few months earlier, she openly criticized the autonomy concept, saying that the laws, especially on regional autonomy, went against the principle of Indonesia as a unitary state, as laid down in the 1945 Constitution.³⁹

The central moves to revise autonomy laws met strong resistance from leaders of Apkasi (Association of Bupatis) and Adeksi (association of local legislative councils), who saw the plan as part of the move to re-centralize the government. Apkasi chairman Syaukani demanded that the central government postpone its plan to revise the autonomy law, pending a comprehensive evaluation involving both central government and local administrations. He said that moves by the Minister of Home Affairs Hari Sabarno to amend the two laws proved that the central government had no political will to implement regional autonomy.⁴⁰

Despite objections from Apkasi and Adeksi, on 26 October 2001, the Minister of Home Affairs Hari Sabarno asserted that the government would continue revising the law on regional autonomy. He said the government would not postpone the revision of the law

³⁸ Jakarta Post, 27 October 2001, 'Revision of regional autonomy goes on: Hari'.

³⁹ Jakarta Post 15 May 2001, 'VP criticizes regional autonomy law'.

⁴⁰ Jakarta Post, 18 October 2001, 'Plan to revise regional autonomy law criticized'.

on regional autonomy, because local administrations had issued many regulations that contradicted the law. The government, according to Hari Sabarno, appreciated the objections of Apkasi and Adeksi. But, he said, they should have addressed their objections to the House and not to the Government because the plan to revise the laws had been made in response to demands from the People's Consultative Assembly and the House of Representatives.⁴¹

Meanwhile, the plan to revise the law was also criticized by Ryaas Rasyid, the former minister. He argued that revision was not necessary. "What we need now is not a revision, but rather support, in the form of government regulations and presidential decrees," he said. He argued that the underlying problem was that the government was not ready to issue the hundreds of supporting regulations badly needed for the implementation of the law.⁴²

On the contrary, AS Hikam, a researcher from National Institute of Science and the former Minister for Research and Technology under President Wahid, told the government to go ahead with its plan to revise the autonomy law. He warned that the disputes sparked by conflicts of interests between the central government and regional administrations in connection with the implementation of regional autonomy could endanger national unity. He said that the implementation of regional autonomy could be the beginning of the end of the republic of Indonesia, if the disputes continue. He also expressed his concern about the divisive sentiment among local leaders, who demanded that positions within their

⁴¹ Jakarta Post, 27 October 2001, 'Revision of Regional autonomy goes on'.

⁴² Jakarta Post, 18 October 2001, 'Plan to revise regional autonomy law criticized'.

administrations be given to local people. If such sentiment was adopted overwhelmingly, he said, it would become a boomerang for national integrity.⁴³

Andi Mallarangeng, former assistant to the State Minister for Regional Autonomy, however, believed that regional autonomy would be able to strengthen national unity if it were implemented properly. But, the Law had only been implemented half-heartedly. This had caused disappointment among many regions, he said. He admitted that the autonomy law had its shortcomings. But he also warned that the government's plan to revise the law should not be aimed at reversing the intention of the decentralization program.⁴⁴

In January 2002, Megawati insisted on revising the Law, saying that it was necessary for preventing the country from breaking up. The districts, however, made it clear that they were not willing to give up any of their newly won powers and budgetary responsibilities.⁴⁵

Confronted with constant opposition from the districts, Megawati criticized the district heads, saying that they were still confused on how to implement the Autonomy Law. Such confusion, according to Megawati, had resulted in deviations from the concept of regional autonomy itself. A few days earlier, she had warned that excessive and ridiculous regionalism in recruiting civil servants would eventually weaken the performance of regional administrations and hurt the country as a whole. At the same time, she also attacked regional heads for buying houses in Jakarta for their representative offices, when in fact there were a lot of hotels in the capital city.⁴⁶

It seemed that the central government's attempt to reassert its power could not be easily accomplished. Opposition to the government's move to revise the autonomy law has

⁴³ Jakarta Post, 27 November 2001, 'Regional autonomy beginning of the end for Indonesia'.

⁴⁴ Jakarta Post, 27 November 2001, 'Regional autonomy beginning of the end for Indonesia'.

⁴⁵ Jakarta Post, 12 February, 'Megawati slams regionalism in recruitment'.

⁴⁶ Jakarta Post, 4 March 2002, 'Megawati steps up attacks on regional governments'.

been widespread. The government's proposal to include a provision that empowers the president to dissolve local councils in the revision has been widely attacked. Two big factions in the DPR, the Golkar and the PAN, also rejected Megawati's plan to revise the autonomy laws. As the general elections were approaching, it seemed that all political parties would need strong support from local elites, and therefore would not take a gamble by supporting Megawati's plan.

Why the Regional Autonomy Plan Has Gone Wrong

Nearly two years after its formal implementation, the regional autonomy law has sparked long-standing conflicts between the different levels of government. The central government believes that the program has gone too far and insisted on revising the Law. Jakarta's efforts to get back some of the lost power and resources from the regions include a campaign suggesting the widespread presence of corruption, nepotism and collusion practices in the regions. At the same time, opposition to the government's plan has also been widespread, ranging from regents, mayors, local councillors, to scholars and political parties.

Experiences of other countries shows that transition from a centralized to a decentralized system of regional government could take a long time, and Indonesia is still in its early stage of this transition. Nevertheless, the progress of decentralization has been significant. Local authorities are now performing more functions. Regional autonomy, according to a recent study by a group of researchers, has encouraged democratisation and made local officials closer to the community. In some districts, mechanisms for consultation between local council and the community have also been established. The existence of

NGOs has encouraged local communities to articulate their needs and to provide checks and balances on government programs.⁴⁷

Despite this, the implementation of regional autonomy policy has also created many problems in the country. The decentralization of the government's functions to local authorities has caused the government's expenses to increase dramatically. Fiscal decentralization has also encouraged regional administrations to use their power to generate revenues rather than create an environment, which is conducive to business activity. The trend toward forest degradation is increasing because many regional administrations treat forests as a source of revenue. The implementation of regional autonomy has instigated ethnic tension and raised concerns about human rights violations in the regions.

Officials tended to regard the concept of Law No. 22 as the source of problems associated with the implementation of regional autonomy policy. However, the drafters of regional autonomy laws saw the excesses as the result of the government's poor preparation in implementing the Law. It seems that both the inadequacies of the law and its poor implementation contributed to the shaky start for regional autonomy. The fact that the program was initiated when Indonesia was experiencing deep economic and political crisis has also influenced the outcome.

Unlike Law No. 5 of 1974, which only decentralized administrative authority to the regions, Law No. 22 of 1999 devolved decision-making power to the regions. This law was based on the assumption that giving regional communities the authority to make decisions on their own affairs would reduce potential conflict between the centre and the regions. This

⁴⁷ The study was made by a group of Indonesian scholars in mid 2000 and sponsored by the Asia Foundation. It has yet to be published.

would also increase participation in the policy process, and therefore enhance the government's responsiveness to the needs of the people in the regions.

One problem with Law No. 22 was that it was based on the assumption that all prerequisites for democracy were in place. Its drafters seemed to assume that political parties were already functioning as channels for people's aspirations. They also seemed to assume that mechanisms for checks and balances were effective. Based on these assumptions, the DPRD was made the principal agent of accountability at the local level. The regional head was made accountable to DPRD. Unfortunately, the drafters of autonomy Law seemed to forget that the current political system did not provide an effective mechanism for ensuring the DPRD's accountability. In Indonesia people vote for a party and the result of the election determines the allocation of seats for political parties in the central as well as the local parliament. A person lacking popular appeal may get elected simply because he/she is on the leading party's list. In such circumstances, it is hard to check the conduct of the local councillors.

Actually, Article 24 of Law No. 22 stipulated that DPRD's prepare their own mechanisms for accountability in their codes of conduct. A study by a group of consultants showed that all local councils prepared their own code of conducts, but mostly based on the one previously set by Suharto's administration. None really touched the issue of accountability. Mostly they just repeated the statement found in Law No. 22. None described principles of accountability or codes of ethics in their code of conducts. Law No. 22 of 1999 also introduced public disclosure as another means of accountability. Most

DPRD meetings were open to the public. But meetings on crucial matters, such as procurement, were closed to the public.⁴⁸

In the absence of an effective accountability mechanism, most local councils tended to abuse the power they had. Corruption was rampant in the DPRD in the election and accountability of the regional head. The Bupati of Natuna regency, for example, was suspected of bribing 12 members of the DPRD and the case was filed in the provincial court.⁴⁹ In Jakarta, it was also suspected that Governor Sutiyoso's decision to allocate a significant portion of the APBD for car allowances in 2000 and new cars in 2001 for all members of the legislative council was related to the acceptance of his accountability report by the DPRD.⁵⁰ There has also been concern about parliamentary abuse of public funds. In most regions, a large amount of public funds were spent for salary and allowances for the councillors. A study by Smeru shows that the income of provincial and local councillors has increased three times after decentralization.⁵¹

Another problem with Law No. 22 was that many of its stipulations are ambiguous. This was due to the fact that the law was prepared in haste by the Habibie Administration in order to counter growing regional discontent. As the concept of regional autonomy laid down in the Law was unclear, it was difficult to ensure that the law was properly translated into action.

The fact that all of the drafters of Law No. 22 were excluded from the preparation process made matters worse. It was not surprising that many of the supporting regulations

⁴⁸ See Discussion Paper on Capacity Building, prepared by Asian Development Bank in cooperation with University of Canberra, SMEC International and PT Intersys.

⁴⁹ Kompas, 19 July 2002.

⁵⁰ Media Indonesia, 22 February 2001, 'Kendaraan Dinas Anggota DPRD DKI Jangan Dikaitkan dengan LPJ'.

⁵¹ Provincial councillors in Jakarta received more than US\$100,000 a year. Local councillors in Natuna received about US\$60,000 a year.

were actually in conflict with the intention of the Law. Regulation No. 84 of 2000 on the organization of regional government, for example, introduced a uniform structure of regional government. This policy was quite contrary to intention of Article 67 of Law No. 22. It also contradicted the principle of fiscal decentralization introduced by Law No. 25.

Another problem with the Law was that it required more than 200 supporting regulations for its implementation. It was clear from the beginning that the drafting of those supporting regulations would take years to complete.⁵² Unfortunately, most regions were impatient to see the Law implemented for fear that delay would allow central officials to shift the direction of regional autonomy to a more centralized arrangement. Being pressured by parliament, the government decided to commence the implementation of the regional autonomy policy in January 2001, despite the fact that most supporting regulations had yet to be drafted. The absence of guidelines from the centre had encouraged the regions to introduce their own rulings, many of which were in conflict with the objectives of regional autonomy.

In addition to the Law's shortcomings, the implementation of the regional autonomy policy has also been hampered by lack of support from central officials. Following the enactment of Law No. 22, a number of central agencies initiated Laws in their sectors in an attempt to take back part of their lost power from the regions. One example was Law No. 43 of 1999 on Civil Servants' Management, which was issued only a few months after the enactment of Law No. 22. This Law gave the authority over the management of all civil servants to the President. This Law also required the central government's approval for staff recruitment and promotion in the regions. On the contrary, Law No. 22 of 1999

⁵² Ross Worthington of the Australian National University, when interviewed by Jakarta Post in November 2000, criticized the hasty implementation of regional autonomy policy in Indonesia. He said Indonesia needed five to 10 years to make the necessary preparations for the implementation of regional autonomy.

decentralized the authority over the management of local civil servants to local administration. This contradiction has created tension between the central and regional governments.

Another example was Law No. 22 of 2001 on the mining sector, which allowed the central government to retain the right to award lucrative mining contracts and set the terms, including how the profit and royalties or fees should be shared out. This Law conflicted with the Article 8 of Law No. 22. This has caused disappointment in some regions.

The chaotic implementation of regional autonomy policy was also the result of poor coordination between different government agencies at the central level, which resulted in conflicting regulations on regional autonomy. For example, the accountability system introduced by Government Regulation No. 104 of 2000 on Financial Management is not in line with the mechanism laid down in Government Regulation No. 108 of 2000 on the Form of Accountability. Government Regulation No. 104 of 2000 requires the regional head to report the implementation of the annual budget to the DPRD quarterly. Meanwhile, Government Regulation No. 108 of 2000 requires the regional head to present its report on the implementation of the annual budget at the end of the fiscal year. This contradiction created confusion and uncertainty.

From the discussion above, it is clear that the political environment surrounding the formulation of the regional autonomy law and its implementation has greatly affected the content and outcome of the program. The democratic principles of local self-governance introduced in the autonomy law are a reflection of the country's euphoria following the lifting of authoritarian restrictions. But officials were used to centralism, paternalism and authoritarianism. The chaotic implementation of the program also reflected the government's lack of confidence to experiment with more independent regional

administrations. The program was introduced when the country was experiencing economic crisis. Therefore, concern was high on the costs and benefits of decentralization.

Indonesia's attempt at political decentralization involves a complicated institutional reform that could take a long time to produce results. In its third year of implementation, more problems may come up, but the positive impacts of the program should also be recognized.

Conclusion

Decentralization has been long overdue in Indonesia. Attempts to devolve power to regional levels have been initiated since the 1950s. But the progress has been very slow. Not until recently have the regions been given the opportunity to make major decisions over their own affairs. But the implementation of the regional autonomy policy, starting from January 2001, has been characterized by increasing vertical and horizontal conflicts that might lead to the nation's disintegration. This concern causes the debate on the right form of decentralization for Indonesia to continue.

Attempts to implement decentralization were actually intensified in the New Order government. Since the mid 1980s, a great number of projects on decentralization were initiated. But they had little impact on the improvement of local autonomy. The failure of the New Order government to devolve power to regional government was primarily due to the limited scope of decentralization introduced in Law No. 5 of 1974. Functions were decentralized to regional governments but authority for making decision over those functions remained at the centre. In fact, under the New Order government, regions were treated more like administrative units, depending on the central government for their authorities, policies and resources.

Despite the rhetoric that claimed this Law was aimed at promoting regional autonomy, this study shows that the concept of "real and responsible autonomy" laid down in Law No. 5 of 1974 was intended to establish a system of regional government that could ensure effective central control over all activities taking place in the regions. Regional heads were made the "sole administrators" in their regions and they were appointed by the central

government from those who were loyal to the central authority. The village head was made accountable to the district head and village administrators were made civil servants. This became a very effective mechanism for controlling the regions down to the villages.

The concept of decentralization introduced in Law No. 5 of 1974 was greatly shaped by the vision of the New Order government on the appropriate central-regional relationships that could support the achievement of its objectives. Decentralization was promised when the New Order government came to power in 1966 and desperately need for support from political parties and regional governments in restoring political stability following the 1965 attempted coup. But its military leaders did not really believe that decentralization would be effective in solving the messy and complicated political, economic and social problems that they inherited from its predecessor. Their experience with continued political instability and a collapsing economy under President Sukarno's rule made them consider the formation of a strong state as the country's first priority in order to ensure political stability and economic development. Therefore, centralization of authority was seen as necessary.

The increased role of non-party technocrats in the regime also contributed to the establishment of a more centralized decision making process. The planning model introduced by the technocrats during the 1970s required a system of centralized mobilization and allocation of state resources. This situation finally led to the decision to replace the concept of "broader regional autonomy" with the concept of "real and responsible autonomy". To implement the concept of "real and responsible autonomy", the government introduction of Law No. 5 of 1974 on principles of government at regional levels.

Law No. 5 of 1974 required that most public services were to be performed by the district authority. This law, however, failed to clarify: 1) what power over which responsibility was to be given; and 2) how the responsibilities previously performed by the

central government would be financed by district authorities. Such arrangements were to be further regulated by the government. But, during the implementation no real attempts were ever made to clarify these two issues.

When the government experienced financial difficulties in the mid-1980s, some new initiatives on decentralization were introduced. Responsibility over some functions was decentralized to regional governments. But the main objective of the program was not to promote local self-governance. Instead it was designed to shift part of the central financial responsibility for providing public services to regional governments. Therefore, the program focused more on strengthening the capacity of local administrations to perform local functions, including the capacity to finance the transferred functions. Meanwhile, the authority to make decisions over the transferred tasks remained at the central departments. The situation remained the same until the fall of Suharto government.

Environment during which Law No. 5 of 1974 was implemented had also contributed to the failure of implementation in the New Order administration. The pressure for decentralization in the New Order Indonesia was low, and therefore the issue did not get much attention from the policy makers. As a result, no real attempt was made to implement the Law. Criteria for defining the transferred functions, the very basic prerequisites for implementing decentralization, were only made available twenty years after the enactment of the Law. It was not surprising that the policy did not make progress. As Grindle and Thomas (1991:6) note, if there is no perception of crisis and the stakes for the government are low, issues are usually left in the hands of middle-level decision makers and change tends to be no more than incremental.

This study concludes that the absence of pressure for regional autonomy was primarily due to the ability of the central government to repress such demands through several measures. Firstly, restrictions put on political parties, the press and all social

organizations effectively reduced people's opportunity to express their aspirations. Secondly, the flows of central funds to the regions through the Inpres Program ensured that local elites had generally accepted the centralized system of government. Thirdly, the appointment of local informal leaders, who retained their legitimacy because of their traditional patron-client networks, to strategic positions in the regional bureaucracy in the troubled provinces, helped the New Order regime prevent the mobilization of support behind local demands for regional autonomy. Fourthly, the government's ideological campaign that placed emphasis on the failure of regional autonomy during the fifties and on the danger of autonomy to national integration, provided justification for central domination over the regions.

The fall of the New Order regime opened another chapter in Indonesia's experience with decentralization. The extraordinary political circumstances following the fall of Suharto government forced the MPR to promise broader autonomy to the regions and fair revenue sharing between the centre and the regions. In an attempt to win public support, President Habibie, who succeeded President Suharto, immediately drafted the bills necessary for implementing the MPR's decision, which were then adopted by the DPR. In May 1999, President Habibie signed Law No. 22 of 1999, which shifts broad powers to district authorities, and Law No. 25 of 1999, which allows regional governments to retain a substantial share of revenues produced in their regions.

The concept of decentralization introduced by the Habibie's government differed significantly from the one implemented during the New Order administration. Mounting demands for democratization forced the Habibie's government to introduce political decentralization. To address regional demands for a fair share of revenues between the centre and the regions, this government also implemented fiscal decentralization. As Smith

argues, the distribution of power between levels of government, as well as the choice of institutions for decentralization, is the outcome of contending political forces (1985:201-2).

The fear that the central government would be reluctant to devolve power to the regions has also created pressure to adopt a "big bang" approach in implementing decentralization, despite the fact that most of the necessary supporting regulations were still not available. But the implementation of decentralization policy has sparked long-standing conflicts between the different levels of government. Most central officials, who were used to administrative centralization, did not feel that the concept of political decentralization introduced suited Indonesia's situation. Popular demands for political decentralization was, however, very strong and the stakes for the government were high.

Attempts to modify the direction of decentralization were consistently made by the central officials during its implementation through the issuance of sectoral laws. A plan to revise the legislation upon which the regional autonomy policy was based has also been prepared by Megawati's government. Opposition to such a plan has been widespread, ranging from district heads to political parties. The implementation of decentralization program has strengthened not only the position of regional governments but also the community. Therefore, a full return to Suharto's centralized system seems impossible.

This study shows that having a decentralized system of regional government has been one of the objectives that the nation has been trying to achieve since its independence. The founders of the republic believed that such a system would promote the development of modern and democratic government in the country. It would allow the government to reach the community. But more than fifty years after its independence, the country is still struggling to realise such an objective. This study shows that the obstacles have been political rather than technical. It was hard to form a national consensus on: 1) what powers should or could be given to sub-national levels of government; 2) to which levels the

powers should be given; and 3) how central control over the regions should be enforced so that national integration could be maintained. As Turner and Hulme (1997:152) argue that “all system of government involves a combination of centralized and decentralized authority. However, finding a combination of central control and local autonomy that satisfies regime needs and popular demands is a persistent dilemma for government.”

The socio-economic and political environment in Indonesia has been unsupportive to decentralization. And this fact has also contributed to the failure to promote regional autonomy in Indonesia, especially during the New Order administration. The accountability mechanism was not in place. The party system was not competitive, and those who represented the government dominated local councils. Local politicians did not have much influence in local councils. Local bureaucrats often paid little regard to local politicians who were considered less educated and less experienced. The press was controlled, and local pressures were weak. As a result the transfer of authority to local level did not make the local councils responsive to local needs. Decentralization finally failed to promote better services to the people.

In the New Order period, misinformation has also created misperceptions about the meaning of decentralization. For many years, decentralization was seen as the problem of distributing roles between the central and regional bureaucracies. Debates surrounding decentralization tended to focus on the redistribution of power and finance from the central to regional government. In this sense, decentralization was only perceived as the transfer of authority from the central to the regional bureaucracy and, therefore it was not the concern of the general population. This made the pressure for decentralization low.

Considering recent political development in Indonesia, decentralization seems to have more opportunity to progress in the near future. The importance of decentralization is now widely accepted and the socio-economic and political environment following the fall of

Suharto's administration seems more conducive to decentralization. The awareness of local authorities to improve local capacity to manage their own affairs has been increasing recently. Concern has also been growing among local communities about the direction and also results of decentralization. In some districts, a new planning and budgeting mechanism was introduced to ensure people's participation. Community organizations were formed to provide checks to local councils as well as regional heads. Local press has also been very critical. Pressures to have direct elections for the recruitment of local councillors and for regional heads have been increasing. The implementation of Law No. 22 of 1999, to some extent, has contributed to the development of a more democratic system of government. At the same time, decentralization seems to progress parallel to the process of democratization in Indonesia.

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